TransAlta

long-cycle gas hedge
business Sheerness
regional acquisition
rising oversupply
natural gas prices electricity production
long-term
OPTIMIZE ASSETS contracts
$0.7848 increased capacity
annually coal and gas
stable
Strong CASH is king results
balance
stable results sheet portfolio
sustainability
coal and gas TAKE A LONG-TERM VIEW
increased $0.0654
capacity per month monthly
gas hedge distributions
Sheerness
acquisition $0.7848
annually
increased capacity
electricity sustainable
production growth

TRANSALTA POWER, L.P. 2003 ANNUAL REPORT

Sheerness acquisition

OPTIMIZE **ASSETS**

coal and gas

CASH is king

stable results

TAKE A **LONG-TERM** VIEW

gas hedge

$0.7848 annually

increased capacity

2003 Highlights

Increased distributions	▶ Increased cash distributions paid to $0.76 per unit in 2003 from $0.74 per unit in 2002, as a result of incremental earnings from the Sheerness plant.
Tax-deferred distributions	▶ Cash distributions continued to provide a fully tax-deferred return for unitholders in 2003. The majority of the cash distributions are expected to be tax-deferred in 2004.
Expanded capacity	▶ The partnership expanded the capacity by 189 megawatts (MW) of coal-fired generation resulting in a diversified fuel mix of 55 per cent coal and 45 per cent gas.
Performance	▶ No safety incidents at the Ontario plants or the Fort Saskatchewan plant in 2003. ▶ The Mississauga plant had two successful gas turbine hot sections completed in 2003. ▶ The Fort Saskatchewan plant average annual heat rate was two per cent better than the contract target.

CORPORATE PROFILE

TransAlta Power, L.P. (TransAlta Power) owns a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen), which owns interests in four gas-fired cogeneration facilities in Ontario and Alberta and in a coal-fired, mine-mouth facility in Alberta. These facilities have a total generating capacity of 1,118 MW of electric power, all of which is sold under long-term contracts to high-quality counterparties.

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Letter to Unitholders

We are pleased to report to you on our 2003 performance and future prospects. We made progress on both our key objectives of providing predictable and secure cash distributions and building long-term value.

Cash distributions increased to $0.76 per unit from $0.74 per unit in 2002 in what was a particularly exciting year for TransAlta Power. In July 2003, we effectively doubled the capacity through TA Cogen's addition of a 50 per cent interest in the two-unit, 756-MW coal-fired Sheerness plant, bringing the number of generating plants in the partnership to five. The Sheerness acquisition, providing secure cash flow supported by an Alberta Power Purchase Agreement (PPA) expiring in 2020, enabled us to increase our cash distributions.

We will continue to pursue growth opportunities. These opportunities will be evaluated against criteria that include assets that: are part of the TransAlta Corporation (TAC) fleet of plants; are consistent with our current risk profile; have been in service for more than one year; provide predictable cash flow; and have output that is contractually secure. In December 2003, we announced a premium distribution, distribution reinvestment and optional unit purchase program to assist in raising capital, which can be used for future acquisitions or investments.

Since inception in 1998, we have distributed $141 million of cash, while increasing our partners' equity from $300 million to $561 million at Dec. 31, 2003.

TA Cogen derives the majority of its revenue under long-term contracts, thereby limiting exposure to market price fluctuations. On the cost side, all of our plants have long-term fuel supply arrangements in place, further securing the cash flow. These contracts also mean plant availability is critical. In 2003, we spent $7.5 million on major maintenance and achieved fleet availability of 97 per cent, consistent with 97 per cent in 2002 for our gas plants. Sheerness was at 99 per cent availability for the five months following our acquisition.

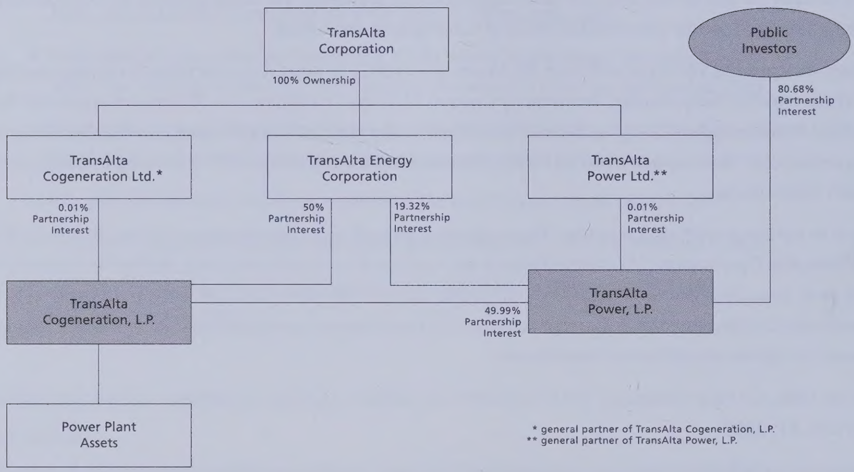
We are also pleased to report that corporate governance of TransAlta Power continued to be a top priority. The Board includes three independent directors who constitute the audit and corporate governance and nominating committees and must approve related party transactions and agreements. Jan Carr resigned from the Board in February 2004 due to his appointment as vice-chair of the Ontario Energy Board. We thank him for his contribution and dedication. We are fortunate that Stephen Mulherin joined the Board to replace Mr. Carr.

Cash distributions to unitholders are currently tax-deferred, and we continue to expect them to remain so throughout most of 2004. We recognize that you are seeking an investment that balances security with annual cash flow. We are committed to delivering on this goal and will work hard to create long-term value for our investors again in 2004 and beyond.

T. Iain Ronald
Chair of the Board

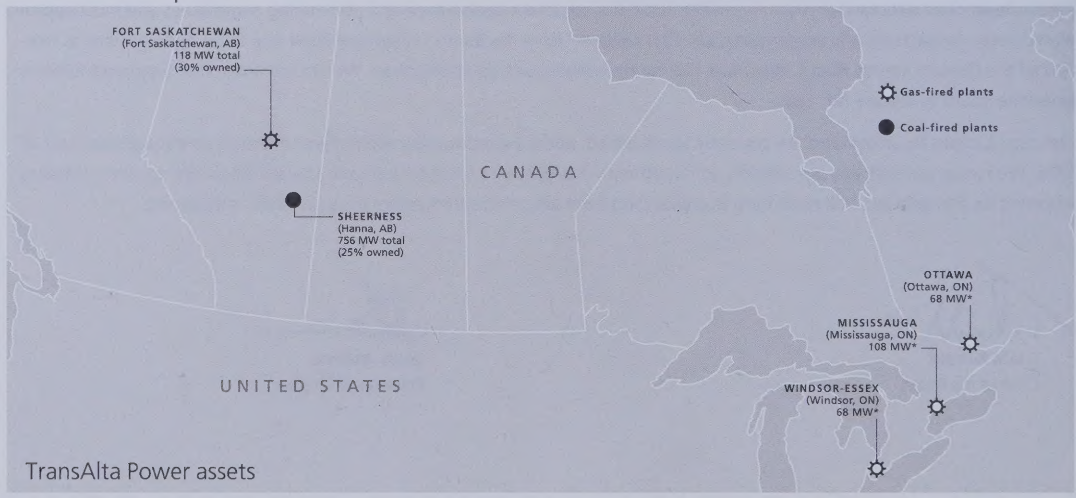
Ian A. Bourne
President & Director

Partnership Structure



The structure of TransAlta Power, L.P. is designed to align the interests of TransAlta Corporation and TransAlta Power, L.P. unitholders.

Review of Operations



** 50 per cent owned*

COGENERATION BACKGROUND

During the late 1980s, a number of provincial governments and publicly owned utilities established programs to actively seek the purchase of electricity from independent power producers. These programs were prompted by environmental concerns, rapid growth in anticipated electricity demand, rising electricity rates, new technologies and growing international competition.

The programs contemplated that the electricity produced by independent power producers would be supplied under long-term power purchase contracts using rates that mirrored the projected long-term value of the electricity to the power system. At the same time, the steam from those power plants with cogeneration capability would be sold to industrial or commercial operators.

This would improve the power plants' efficiency of the fuel used to generate electricity and reduce overall costs. The power plants owned and operated by TA Cogen operate within such programs. The three Ontario cogeneration plants are under contract with Ontario Electricity Financial Corporation (OEFC) for the electricity produced and they provide steam to the hosts of the various plants. The Fort Saskatchewan, Alberta cogeneration plant provides both power and steam to the Dow Chemical Canada Inc. (Dow Chemical) facility under a contract similar to that described above.

SHEERNESS BACKGROUND

In the mid-1990s the Alberta Electric System was restructured commencing with passage of the Alberta Electric Utilities Act (EUA) in 1995. The objective was to position the industry to be increasingly cost-effective, reliable, safe, transparent and well-invested for the future.

With the EUA came changes to the electricity industry including but not limited to the following:

- reorganized vertically integrated utilities along the lines of Generation, Transmission and Distribution as separate functions, without forced divestiture;
- continued regulation over Transmission and Distribution;
- allowance of new Generation of power to be deregulated;
- creation of the Power Pool of Alberta, responsible for the operation of an independent, fair, open and efficient market for the exchange of electricity and the safe, reliable and economic operation of the interconnected electric system;
- allowance for market forces (supply and demand) to set the price of power;
- creation of a Transmission Administrator to provide open access to the grid;

The government of Alberta created an Independent Assessment Team to design the PPAs that would manage existing generation, such as Sheerness, in Alberta. Under this new structure, the output of existing plants was sold through an auction into the market to PPA buyers. The sales proceeds were returned to customers as residual value payments through a balancing pool.

Some of the generation output was not sold in the first auction and was transferred to the Balancing Pool of Alberta (Balancing Pool). The Balancing Pool subsequently sold short-term electricity contracts into the open marketplace, based on the unsold PPAs, one of which was the Sheerness PPA.

The government and various industry committees continue to fine-tune many processes that have been implemented under deregulation.

PARTNERSHIP STRUCTURE

TransAlta Power owns a 49.99 per cent interest in TA Cogen. TA Cogen wholly owns three Ontario cogeneration facilities, a 60 per cent interest in the Fort Saskatchewan cogeneration facility and a 50 per cent interest in the Sheerness thermal electric generation facility in Alberta. TAC owns 50.01 per cent of TA Cogen through two wholly owned subsidiaries: TEC and TransAlta Cogeneration Ltd. TEC is responsible for the operation and maintenance of the plants.

Throughout this report, references to TransAlta Power represent this 49.99 per cent ownership interest in the power plant assets. The partnership structure can be found on the page four of this annual report.

WHAT IS COGENERATION?

The term cogeneration refers to the simultaneous production of power and useful heat from one fuel source. In a typical cogeneration plant, a natural gas-fired turbine generates electrical power and the heat produced is recovered and used to produce steam. The steam is used for an industrial process or, in the case of combined-cycle plants, to generate additional electricity through a steam turbine.

WHAT IS THERMAL ELECTRIC GENERATION?

Coal is pulverized to a fine powder, mixed with air and blown into the boiler (furnace). This coal/air mixture ignites instantly in the boiler. Water is drawn into the plant, purified and circulated through small pipes lining the boilers. Water in the boiler pipes picks up heat from the boiler and turns into steam that passes to the steam turbine. The steam turbine then causes a shaft to turn inside a generator, creating electric current.

POWER PLANT ASSETS

Fort Saskatchewan

The Fort Saskatchewan plant is a combined-cycle cogeneration facility designed to produce 118 MW of electrical energy. The Fort Saskatchewan plant, a joint venture with Air Liquide Canada Inc., provides electricity and steam to Dow Chemical's facility in Fort Saskatchewan. The Fort Saskatchewan plant is located within the Dow Chemical site in Fort Saskatchewan, Alberta. Dow Chemical has granted a licence and agreed to lease the lands where the Fort Saskatchewan plant is located for an initial term of 20 years that expires on Nov. 30, 2019.

Megawatts	118
Electricity sales	Dow Chemical until 2019
Steam sales	Dow Chemical until 2019
Gas supply	Dow Chemical until 2019

Mississauga

The Mississauga plant is a combined-cycle cogeneration facility designed to produce 108 MW of electrical energy. The 108 MW are contracted under a firm supply contract to OEFC. The plant also supplies steam, compressed air, waste water treatment and deionized water to Boeing Canada Inc. The plant is located adjacent to the Boeing manufacturing facility near the Lester B. Pearson International Airport in Mississauga, Ontario.

Megawatts	108
Electricity sales	OEFC under contract until 2017
Steam sales	Boeing Canada until 2013
Gas supply	Husky Energy until 2012

Ottawa

The Ottawa plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. The 68 MW are contracted under a firm supply contract to OEFC. The Ottawa plant also supplies thermal energy to the member hospitals and treatment centres of the Ottawa Health Sciences Centre, National Defense Medical Centre and Perley Hospital, in Ottawa, Ontario.

Megawatts	68
Electricity sales	OEFC under contract until 2012
Steam sales	Ottawa Health Sciences Centre until 2013
	Perley Hospital until 2013
	National Defense Medical Centre until 2008
Gas supply	TEC until 2007

Windsor-Essex

The Windsor-Essex plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. Currently, 50 MW are contracted under a firm supply contract with OEFC. The remaining 18 MW of capacity will be sold to the Ontario power market when it is economic to do so under an excess capacity agreement with the OEFC. The Windsor-Essex plant also provides steam to Chrysler Canada Ltd.'s (DaimlerChrysler) assembly facility in Windsor, Ontario.

Megawatts	68
Electricity sales	OEFC under contract until 2016
Steam sales	DaimlerChrysler until 2016
Gas supply	Pioneer until 2014
	Mirant until 2011

Sheerness

The Sheerness plant is a thermal electric generating facility designed to produce 756 MW of electrical energy. The capacity and electric energy are contracted under a PPA with the Balancing Pool.

Megawatts	756
Electricity sales	PPA until 2020
Coal supply	Luscar until 2026

Partnership Governance

The governance of the Partnership is the responsibility of the Board of Directors of the General Partner (the Board) and the rights, authority and limitations on the General Partner are described in the Limited Partnership Agreement, as amended (the Partnership Agreement). Under the terms of a Management Agreement, the Partnership has retained TransAlta Energy Corporation (the "Manager") to provide management, administrative and other services in connection with the Partnership.

As set out in the Partnership Agreement, the Board is to be comprised of not more than seven directors of which not less than three are to be independent and unrelated to TransAlta. During 2003, the Board was comprised of seven directors, three of whom were independent and unrelated to TransAlta.

The Board has plenary power for all activities of the General Partner unless specifically delegated to a committee of the Board or management. To fulfill its responsibilities with respect to the Partnership, the General Partner's Board established an audit committee and a committee of independent directors. In January 2004, the Board also established a governance and nominating committee. The combined work of the Board and these committees fulfill the fiduciary responsibility of the Board to foster the long-term success of the Partnership and maximize the partners' value.

The Partnership Agreement provides that the Board can function separately from the Manager and management, as the Board must approve any material transactions or agreements entered into by the Partnership. In addition, where such material transactions or agreements are between the Partnership and TransAlta or its affiliates or associates, they must be approved by a majority of the Independent Directors. The Board has accommodated this requirement through the establishment of an Independent Directors' Committee, which was made up in 2003 of Iain Ronald (chair), Jan Carr and Randall Findlay, which approves all material transactions between the Partnership and TransAlta and any of TransAlta's affiliates or associates. Mr. Carr resigned as a director in February 2004 due to his appointment as vice-chair of the Ontario Energy Board. Stephen Mulherin was elected to the Board to replace Mr. Carr. He is also an independent director, and is now a member of the Independent Directors' Committee.

Both the Board and the Independent Directors' Committee can approve the engagement of outside advisors. The engagement of advisors for the Independent Directors' Committee is limited to advisors required for matters within their mandated responsibility.

As a publicly traded entity, the Partnership is required to disclose on an annual basis its alignment with a set of governance guidelines adopted by the Toronto Stock Exchange to assist organizations in assessing accountability to stakeholders.

Does the Partnership Align?	STATEMENT OF GOVERNANCE PRACTICES
	GUIDELINE 1 ▶ **The Board should explicitly assume responsibility for stewardship of the corporation.**
Yes ▶	The Board has responsibility for the overall stewardship of the Partnership, establishing the overall policies and standards of the Partnership in the operation of its businesses, reviewing and approving its strategic plans and supervising the Manager.
	GUIDELINE 1A ▶ **The Board should specifically assume responsibility for the adoption of a strategic planning process.**
Yes ▶	The Board has adopted a strategic planning process and meets during the year to review and approve the Manager's strategic plan for the Partnership. Changes to that plan are considered when appropriate.
	GUIDELINE 1B ▶ **The Board should specifically assume responsibility for the identification of principal business risks and implementation of risk management systems.**
Yes ▶	The strategic plan process adopted by the Board also includes a review of significant risks to the Partnership, and the Manager ensures that the Board is kept informed of any changes to these risks on a timely basis. The Audit Committee reviews the Partnership's financial risks and reports to the Board on these matters on a quarterly basis. The Board also receives and reviews reports from the Manager on health, safety and environmental issues affecting the Partnership.
	GUIDELINE 1C ▶ **The Board should specifically assume responsibility for succession planning, including appointing, training and monitoring senior management.**
Yes, ▶ indirectly	The Board believes that the management of the Partnership is key to its ongoing success. Under the terms of the Management Agreement , the Manager is responsible to provide management, administrative and other services to the Partnership including such matters as may be requested by the General Partner from time to time. The Partnership relies on the Manager to be responsible for succession planning to meet its contractual obligations.
	GUIDELINE 1D ▶ **The Board should specifically assume responsibility for communications policy.**
Yes ▶	The Board has put structures in place to ensure effective communications between the Partnership, its partners and the public. The Board, or the appropriate committee thereof, reviews the content of the Partnership's major communications to the investing public, including the quarterly and annual reports and quarterly and annual management's discussion and analysis, and approves the annual information form and any prospectuses that may be issued. The disclosed information is released through mailings to limited partners, news wire services, the general media and the Partnership's home page on the internet.
	GUIDELINE 1E ▶ **The Board should specifically assume responsibility for the integrity of internal control and management information systems.**
Yes ▶	The Partnership has retained the Manager to provide the Partnership with management, administrative and other services. Internal controls similar to those used by TransAlta Corporation are in place for the Partnership and these are monitored by the Audit Committee through reports from the Manager, the work of the external auditors and reports from the Manager's internal auditors. The Audit Committee meets in camera after each meeting, without any management in attendance.

Does the Partnership Align?

STATEMENT OF GOVERNANCE PRACTICES

GUIDELINE 2 ▶

Majority of directors should be "unrelated" (independent from management and free from conflicts of interest).

No ▶ Under the terms of the Partnership Agreement, the General Partner has agreed that as long as it is an Affiliate of TransAlta, its Board of Directors shall be comprised of not more than seven directors of which not less than three shall be independent directors. Under the terms of the agreement, all transactions with TransAlta must be recommended by the Independent Directors' Committee. The Board believes this is an appropriate approach for the Partnership.

In 2003, the Partnership completed a significant transaction, the acquisition of a 49.99 per cent interest in TransAlta's 50 per cent interest in the Sheerness plant, a 756-MW coal-fired electric generating station near Hanna, Alberta. This transaction required a significant time commitment of the Independent Directors' Committee. In approving the acquisition, the Independent Directors' Committee obtained independent financial advice, including a formal valuation, independent legal advice and independent technical advice. The Board believes that this process worked well and in the best interests of all Partners.

GUIDELINE 3 ▶

Disclose for each director whether he or she is related, and how that conclusion was reached and that the majority of directors are "outside" directors.

No ▶ The Board has seven directors, three of whom are senior officers of TransAlta, namely Ian Bourne, Thomas Rainwater and Robert Soeldner, and one of who, Terence Dalgleish, is a former senior officer of TransAlta and counsel to a law firm which provides legal advice to TransAlta. These four individuals would be considered to be related directors. The remaining three directors, namely Iain Ronald, Stephen Mulherin and Randall Findlay, are unrelated. None of them worked in the day-to-day operations of the Partnership or the Manager, was a party to any material agreements with the Partnership or the Manager or received compensation other than as directors.

GUIDELINE 4 ▶

Appoint a committee of outside directors responsible for appointment of new nominees and ongoing assessment of directors.

Yes ▶ Prior to January 2004, the Board itself, given its small size, assumed the responsibility for assessing new nominees to the Board as well as considering the Board performance on an ongoing basis. In January 2004, the Board established a governance and nominating committee, now made up of Iain Ronald (chair), Stephen Mulherin and Randall Findlay, the independent directors, to fulfill these responsibilities.

GUIDELINE 5 ▶

Implement a committee process for assessing the effectiveness of the board, its committees and the contribution of individual directors.

Yes ▶ The Governance and Nominating Committee is now responsible for assessing the performance of the Board, its committees, and the contribution of individual directors.

GUIDELINE 6 ▶

Provide orientation and education programs for new recruits to the board.

Yes ▶ All directors are provided with orientation materials that include written information about the duties and obligations of directors of the Partnership and the business of the Partnership. An opportunity for meetings and discussions with senior management and other directors is also available. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.

Does the Partnership Align?

STATEMENT OF GOVERNANCE PRACTICES

GUIDELINE 7 ▶

Examine the size of Board, with a view to improving effective decision-making and, if appropriate, undertake a program to reduce the number of directors.

Yes ▶ The Partnership Agreement provides for the Board to be comprised of not more than seven directors of which not less than three are to be independent. At this time the Board consists of seven directors, three of whom are independent, and the Board believes this is an appropriate number for the business of the Partnership.

GUIDELINE 8 ▶

Review adequacy and form of compensation of directors to ensure compensation reflects risks and responsibilities.

Yes ▶ The Board reviews the compensation of the independent directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable entities. Only the outside directors receive compensation from the Partnership for services to the Board or committees.

GUIDELINE 9 ▶

Committees should generally be composed of outside directors, a majority of which are unrelated.

Yes ▶ As a matter of policy, the Board believes there should be a majority of unrelated directors on its committees and the committees should be chaired by independent directors. The Audit Committee, the Governance and Nominating Committee and the Independent Directors' Committee are each comprised of unrelated directors.

GUIDELINE 10 ▶

Appoint a committee responsible for developing an approach to corporate governance issues.

Yes ▶ The Governance and Nominating Committee has this responsibility.

GUIDELINE 11 ▶

Define limits to management's responsibilities by developing position descriptions for the Board and CEO and approving corporate objectives for the CEO to meet.

Yes, indirectly ▶ Under the Management Agreement, the Partnership has retained the Manager to provide management, administrative and other services to the Partnership. The Manager has in place position descriptions, limitations of authority and corporate objectives for all its senior officers, which are reviewed by the manager annually.

GUIDELINE 12 ▶

Establish procedures to enable the board to function independently of management.

Yes ▶ The Partnership Agreement provides that the Board can function separately from the Manager and management of the General Partner, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransAlta or any of its Affiliates, including the Manager. The Independent Directors' Committee has been established for this purpose.

GUIDELINE 13 ▶

Establish an audit committee composed only of outside directors with specifically defined roles and responsibilities.

Yes ▶ The Audit Committee for the Partnership has defined roles and responsibilities as outlined in its Charter. The Charter is available on the Web site at www.transalta.com. That committee is comprised of three independent directors, Iain Ronald (chair), Stephen Mulherin and Randall Findlay, none of whom are officers or employees of TransAlta or any of its subsidiaries or affiliates.

GUIDELINE 14 ▶

Implement a system to enable individual directors to engage outside advisors at the corporation's expense.

Yes ▶ Independent directors have the authority to retain consultants for themselves or the Independent Directors' Committee, where necessary and appropriate.

Management's Discussion & Analysis

This discussion and analysis should be read in conjunction with the financial statements and Auditors' Reports for TransAlta Power, L.P. (TransAlta Power) and TransAlta Cogeneration, L.P. (TA Cogen) included in this Annual Report. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All tabular amounts in the following discussion are in millions of Canadian dollars, except per unit amounts, unless otherwise noted. This Management's discussion and analysis (MD&A) is current as of Feb. 27, 2004. Additional information respecting TransAlta Power, including TransAlta Power's annual information form, is available on SEDAR at www.sedar.com.

TransAlta Power's primary source of earnings is from its equity ownership in TA Cogen. TA Cogen distributes cash to its partners, including TransAlta Power. TransAlta Power utilizes the cash distributions received from TA Cogen to fund its distributions to its unitholders. A detailed discussion of TA Cogen can be found in this MD&A to provide context for TransAlta Power's results.

FORWARD LOOKING STATEMENTS

Management's discussion and analysis contains forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Power and TA Cogen. In some cases, forward-looking statements can be identified by terms such as 'may', 'will', 'believe', 'expect', 'potential', 'enable', 'continue' or other comparable terminology. These statements are not guarantees of TransAlta Power's and TA Cogen's future performance and are subject to risks, uncertainties and other important factors that could cause TransAlta Power's and TA Cogen's actual performance to be materially different from those projected. Some of the risks, uncertainties, and factors include, but are not limited to: legislative and regulatory developments that could affect revenues, costs, the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in commodity prices, prevailing interest rates, inflation levels and general economic conditions where TransAlta Power and TA Cogen operate; results of financing efforts; changes in counterparty risk; and the impact of accounting standards issued by Canadian standard setters. Given these uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Risk Factors and Risk Management in this MD&A.

OVERVIEW

TransAlta Power's earnings and cash flows result from its 49.99 per cent ownership interest in TA Cogen. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC), through its wholly owned subsidiaries: TransAlta Energy Corporation (TEC), 50 per cent, and TransAlta Cogeneration Ltd., 0.01 per cent. TA Cogen distributes cash to TransAlta Power and TEC in amounts proportionate to their ownership interests in TA Cogen. TransAlta Power, in turn, pays cash distributions to its unitholders.

STRATEGY AND KEY PERFORMANCE INDICATORS

TransAlta Power's primary objective is to provide cash distributions to unitholders. During 2003, TransAlta Power's cash distributions per unit increased by three per cent compared to 2002, as a result of an increase in TA Cogen's cash flows distributed to its partners, including TransAlta Power, following the acquisition of the Sheerness plant. See the Significant Events in 2003 and 2002 section of this MD&A.

TA Cogen's strategy is to deliver sustainable earnings and cash flow through operations of a portfolio of power generating assets. To implement this strategy, TransAlta Power and TA Cogen focus on maintaining a strong balance sheet, minimizing costs, utilizing existing assets efficiently and carefully managing the risk profile. As part of this strategy, TA Cogen acquired an interest in the Sheerness plant in July 2003, effectively doubling the capacity of its portfolio of power generating assets.

Availability is a key performance indicator for TA Cogen and drives cash flows. TA Cogen delivers the majority of its output under long-term contracts; therefore, availability is critical to meeting these contractual requirements. TA Cogen spent $7.5 million on planned maintenance and during 2003 achieved a fleet availability of 97 per cent, consistent with 97 per cent in 2002.

Long-term contracts minimize TA Cogen's exposure to market price fluctuations and provide a stable stream of revenues to support fixed operating costs, pay interest, make capital expenditures and provide distributions to unitholders. In 2003, 96 per cent of TA Cogen's production was sold under contracts with remaining durations of nine to 17 years.

As part of the management agreement with TEC, TransAlta Energy Marketing (TEM), a related company of TA Cogen, strives to maximize margins from the production and sale of electricity by optimizing asset performance. During 2003, TEM negotiated to sell excess electrical capacity from TA Cogen's Ottawa and Windsor-Essex plants.

In 2003, TA Cogen implemented "Target Zero", an undertaking aimed at ensuring the focus on safety remains high. TA Cogen integrated "Target Zero" safety initiatives into its environmental health and safety management system to help sustain TA Cogen's excellent safety record.

FINANCIAL HIGHLIGHTS

TransAlta Power

Years ended Dec. 31 *(in millions except per unit amounts)*	2003	2002[1]
Net income	$ 24.9	$ 18.5
Net income per unit	$ 0.51	$ 0.54
Cash available for distribution	$ 44.5	$ 25.3
Cash available for distribution per unit	$ 0.91	$ 0.74
Cash distributions paid	$ 37.6	$ 25.2
Cash distributions paid per unit	$ 0.76	$ 0.74
Weighted average number of units outstanding	48.9	34.0

1 2002 amounts have been restated to reflect the change in equity income recognized as a result of TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the changes retroactively with restatement of prior periods. See Note 2 to the annual financial statements of TransAlta Power for further discussion.

Distributable cash is the amount by which TransAlta Power's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses of TransAlta Power; and (ii) amounts required for the business and operations of TransAlta Power, including pursuing growth opportunities.

"Cash available for distribution" is a measure of TransAlta Power's ability to make distributions to unitholders based on operating results; however, it is not defined under GAAP and it should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP as an indicator of TransAlta Power's performance or liquidity. TransAlta Power's cash available for distribution is not necessarily comparable to a similarly titled measure of another partnership. A reconciliation from cash flow from operations to cash available for distribution is as follows:

Years ended Dec. 31 *(in millions)*	2003	2002[1]	2001[1,2]
Cash flow from operations	$ (0.9)	$ (0.6)	$ (0.2)
Deduct: Change in non-cash working capital balances	–	0.2	(0.1)
Deduct: Purchase of TA Cogen units	(152.4)	–	(35.0)
Add: Net proceeds on the issuance of partnership units	154.4	–	36.1
Add: Distributions declared from TA Cogen	43.4	25.7	22.5
Cash available for distribution	$ 44.5	$ 25.3	$ 23.3

1 2002 amounts have been restated to reflect the change in equity income recognized as a result of TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the changes retroactively with restatement of prior periods. See Note 2 to the annual financial statements of TransAlta Power for further discussion.

2 2001amounts have been restated to reflect the change in TA Cogen's accounting policy with respect to levelization payments. The change was applied retroactively with restatement of prior periods. See Note 2 to the annual financial statements of TransAlta Power for further discussion.

Cash available for distribution differs from cash distributions paid for the year ended Dec. 31, 2003 as a result of timing differences.

TA Cogen

Years ended Dec. 31 *(in millions)*	2003	2002[1]
Net income	$ 51.6	$ 37.7
Cash available for distribution	$ 85.1	$ 57.2
Cash distributions paid	$ 72.9	$ 51.1

1 2002 amounts have been restated to reflect the change in equity income recognized as a result of TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the changes retroactively with restatement of prior periods. See Note 2 to the annual consolidated financial statements of TA Cogen for further discussion.

Distributable cash is the amount by which TA Cogen's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses of TA Cogen, such as the repayment of long-term debt; (ii) amounts required for the business and operations of TA Cogen and the power plants; and (iii) any cash reserve which the Board of Directors of the TA Cogen general partner in its discretion determines is necessary to satisfy TA Cogen's current and anticipated obligations and liabilities.

"Cash available for distribution" is a measure of TA Cogen's ability to make distributions to unitholders based on operating results; however, it is not defined under GAAP and it should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP as an indicator of TA Cogen's performance or liquidity. TA Cogen's cash available for distribution is not necessarily comparable to a similarly titled measure of another partnership. A reconciliation from cash flow from operations to cash available for distribution is as follows:

Years ended Dec. 31 *(in millions)*	2003	2002[1]	2001[1,2]
Cash flow from operations	$ 79.3	$ 58.1	$ 57.7
Deduct: Changes in non-cash working capital	11.7	7.8	(3.9)
Deduct: Non-cash interest expense	(0.4)	(0.3)	–
Add: Levelization advance from TEC	0.3	0.7	1.1
Add: Proceeds on the issuance of partnership units	154.9	–	–
Deduct: Acquisition of the Sheerness plant	(149.8)	–	–
Deduct: Repayment of long-term debt principal	(3.4)	(3.2)	(2.9)
Deduct: Capital maintenance spending, net of recoveries	(7.5)	(5.9)	(5.4)
Cash available for distribution	$ 85.1	$ 57.2	$ 46.6

1 2002 amounts have been restated to reflect TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. The changes were adopted retroactively with restatement of prior periods. See Note 2 to the annual consolidated financial statements of TA Cogen for further discussion.

2 2001 amounts have been restated to reflect the change in TA Cogen's accounting policy with respect to levelization payments. The change was applied retroactively with restatement of prior periods. See Note 2 to the annual consolidated financial statements of TA Cogen for further discussion.

Cash available for distribution differs from cash distributions paid for the year ended Dec. 31, 2003 as a result of timing differences.

SIGNIFICANT EVENTS IN 2003 AND 2002

Acquisition of the Sheerness Plant

In connection with TransAlta Power's indirect acquisition of an approximate 25 per cent interest in the Sheerness plant in July 2003, TransAlta Power issued 17.75 million subscription receipts to the public for gross cash proceeds of $165.1 million. TransAlta Power also issued 17.75 million private subscription receipts to TEC at fair value, reflecting the market value of TransAlta Power units, for gross proceeds of $165.1 million in the form of a note receivable. TransAlta Power used the cash received from the issuance of subscription receipts to the public and the note receivable from TEC to subscribe for limited partnership units of TA Cogen in the amount of $315.0 million.

On July 31, 2003, TA Cogen acquired, at fair value, a 50 per cent interest in the Sheerness plant for $629.8 million. Fair value was determined by valuing the estimated future cashflows from TEC's 50 per cent share of the Sheerness plant. Estimated future cashflows were based on detailed forecasts of long-term revenues, expenses, capital, decomissioning and working capital cashflows, much of which was validated by an independent engineering assessment. Valuation methods and metrics were applied that were representative of similar income trust transactions.

TA Cogen's interest in the Sheerness plant is accounted for as a joint venture and, accordingly, reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses. The Sheerness plant is operated by Canadian Utilities Ltd., a subsidiary of ATCO Ltd.

On July 31, 2003, each TransAlta Power public subscription receipt was exchanged for one unit and one warrant and each private subscription receipt was exchanged for one unit, without payment of additional consideration. Each warrant entitles the holder to acquire one partnership unit at a price of $9.30 per unit during a period of one year ending on Aug. 3, 2004. Pursuant to a delivery agreement between TransAlta Power and TEC, as the warrants are exercised, TEC will sell TransAlta Power units back to TransAlta Power for $9.30 per unit. On the assumption that the warrants are fully exercised, TEC's ownership interest in TransAlta Power will be reduced from approximately 26 per cent to nil. At Dec. 31, 2003, TEC's ownership in TransAlta Power was 19.3 per cent, after the exercise of 4.3 million warrants for total proceeds of $40.2 million.

TEC and TA Cogen have entered into a services agreement pursuant to which TEC will provide TA Cogen with certain management and administrative services with respect to the Sheerness plant. In connection with the acquisition, TEC will continue to provide such services; however, it will not be entitled to receive any fees for providing such services. TEC will continue to be reimbursed by TA Cogen for any expenses and third party costs incurred in providing such services.

Concurrent with the purchase of the Sheerness plant, some agreements have been amended or terminated to be in alignment with the growth and business strategies of TransAlta Power. The changes are as follows:

- The management services provided by TEC to TransAlta Power and TA Cogen will continue, however, the related agreements have been amended to include a reimbursement of TEC's expenses and third party costs by TransAlta Power and TA Cogen and to remove the obligation for TransAlta Power and TA Cogen to pay management fees. In exchange for the removal of the obligation to pay management fees, TransAlta Power paid a one-time compensation fee of $1.0 million to TEC. TA Cogen also paid a one-time compensation fee of $5.0 million to TEC.
- A provision which obligated TAC to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 at fair market value has been terminated; thereby removing the risk to unitholders of having to liquidate their investment in TransAlta Power earlier than they otherwise might choose.
- TA Cogen and TEC amended the terms of the Fort Saskatchewan sales agreement to remove any requirement for TEC to purchase the Fort Saskatchewan plant either at its option or under TA Cogen's right to require TEC to repurchase the plant on July 31, 2017. TA Cogen no longer requires TEC to use reasonable commercial efforts to sell the plant on or before Dec. 31, 2018.

There were no significant events in 2002.

OPERATING RESULTS

TransAlta Power

Equity Income from TA Cogen and Cash Distributions Paid

Years ended Dec. 31 *(in millions except per unit amounts)*	2003	2002[1]
Equity income	$ 25.8	$ 18.9
Equity income per unit	$ 0.53	$ 0.56
Cash distributions paid	$ 37.6	$ 25.2
Cash distributions paid per unit	$ 0.76	$ 0.74

1 2002 amounts have been restated to reflect the change in equity income recognized as a result of TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the changes retroactively with restatement of prior periods. See Note 2 to the annual financial statements of TransAlta Power for further discussion.

Equity income represents TransAlta Power's 49.99 per cent interest in the net earnings of TA Cogen, the operating limited partnership. A detailed discussion of TA Cogen's net earnings can be found in the TA Cogen Operating Results section of this MD&A.

TransAlta Power paid cash distributions for the year ended Dec. 31, 2003 of $37.6 million ($0.76 per unit) compared to 2002 distributions paid of $25.2 million ($0.74 per unit). The monthly cash distributions were increased to $0.0654 per unit effective July 31, 2003 (annualized distributions of $0.7848 versus $0.7500 per unit).

Since 1998, cash distributions have been fully tax-deferred and the majority of the cash distributions are expected to be tax-deferred in 2004. Unitholders are not required to pay income tax in the year of receipt on the distributions that are tax-deferred. More than 95 per cent of the cash distributions are expected to be tax-deferred in 2004.

Management and Administration Expenses

Years ended Dec. 31 *(in millions)*	2003	2002
Management and administration expenses	$ 1.6	$ 0.3

The increase in management and administration expenses of $1.3 million for the year ended Dec. 31, 2003 over 2002 was the result of the one-time compensation fee of $1.0 million paid to TEC for amending the limited partnership management services agreement and $0.3 million related to legal and stock exchange costs.

Net Interest Income

Years ended Dec. 31 *(in millions)*	2003	2002
Net interest income	$ 0.7	$ –

Interest income for the year ended 2003 is the interest earned on the subscriptions receipts issued in connection with the acquisition of the Sheerness plant for the period from July 9 to July 31, 2003.

TA Cogen

Net Income and Cash Distributions Paid

Years ended Dec. 31 *(in millions)*	2003	2002[1]
Net income	$ 51.6	$ 37.7
Cash distributions paid	$ 72.9	$ 51.1

1 2002 amounts have been restated to reflect TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. The changes were adopted retroactively with restatement of prior periods. See Note 2 to the annual consolidated financial statements of TA Cogen for further discussion.

For the year ended Dec. 31, 2003, net income increased by $13.9 million over 2002 due to incremental earnings from the Sheerness plant of $27.0 million, partially offset by increased gas costs of $9.2 million due to price escalations in the Windsor-Essex gas supply contract and in the fixed-for-floating swap agreement (see Off Balance Sheet Arrangements section of this MD&A), higher planned maintenance outages costs of $1.5 million and the one-time $5.0 million compensation fee for amending the management services agreement. Furthermore, 2002 results reflect a favourable one-time gas transportation adjustment of $2.0 million related to 2001, due to a regulatory decision received in 2002.

Cash distributions paid by TA Cogen of $72.9 million increased compared to 2002 cash distributions paid of $51.1 million as a result of increased cash earnings.

Revenues

Years ended Dec. 31 *(in millions)*	2003	2002
Electrical	$ 108.6	$ 94.6
Capacity	89.4	49.7
Thermal and other	11.2	10.2
Total	$ 209.2	$ 154.5
Total production (GWh)	3,496	2,315

Revenues from the Sheerness plant are earned under an Alberta Power Purchase Arrangement (PPA), which expires on Dec. 31, 2020. Under the terms of the arrangement, the Sheerness plant earns monthly capacity revenues, which are designed to recover the plant's fixed costs and provide a return on capital. In addition, the Sheerness plant earns energy payments for the recovery of pre-determined variable costs of producing energy, an incentive/penalty for achieving above or below the targeted availability and an excess energy payment for power production above committed capacity; all are included in electrical revenues. TA Cogen's electricity revenues from the Ontario plants are earned under long-term contracts with the Ontario Electricity Financial Corporation (OEFC). The long-term contracts have remaining terms ranging from nine to 14 years. The Fort Saskatchewan plant earns no electrical revenue, as Dow Chemical Canada Inc. (Dow Chemical) purchases the entire capacity of the plant by way of capacity payments.

Total production increased by 1,181 GWh for the year ended Dec. 31, 2003, as a result of the acquisition of the Sheerness plant, partially offset by decreased production at the Windsor-Essex plant and the Fort Saskatchewan plant due to lower production required by Dow Chemical. Production at the Windsor-Essex plant was lower because it was not economical for TA Cogen to operate this plant above the contracted amount due to the increase in gas costs.

For the year ended Dec. 31, 2003, electrical revenue increased by $14.0 million and capacity revenue increased by $39.7 million over 2002 as a result of the addition of the Sheerness plant. Thermal and other revenue for the year ended Dec. 31, 2003 increased slightly over the same period of 2002, as a result of gas sales by the Ontario plants.

Cost of Fuel

Years ended Dec. 31 *(in millions)*	2003	2002
Total cost of fuel	$ 83.9	$ 68.0

Cost of fuel includes gas commodity and transportation costs and coal costs. Gas commodity prices for the Ottawa and Mississauga plants are fixed, with an escalation factor, under the terms of the 61-month fixed-for-floating swap agreement with TEC, which began on Dec.1, 2000. Natural gas used by the Fort Saskatchewan plant is provided by Dow Chemical, based on contractual arrangements. TA Cogen also has a transportation swap agreement with TEC to fix gas transportation costs for the Ottawa and Mississauga plants from November 2002 to November 2007.

Coal for the Sheerness plant is supplied from the Sheerness mine, which is owned and operated by Luscar Ltd. (Luscar). Coal is supplied at a price consisting of a fixed monthly charge and a variable per tonne charge, both of which are subject to escalation. In addition, a royalty will be paid to Luscar once a specified amount of coal has been delivered. This royalty is expected to be triggered in 2007. The coal agreements expire in 2026, when the plant is expected to be retired.

For the year ended Dec. 31, 2003, fuel costs increased by $15.9 million over 2002, as a result of the addition of the Sheerness plant and the increase in the cost of gas of $5.20 per MWh to $43.48 per MWh mainly due to price escalations in the Windsor-Essex gas supply contract and in the fixed-for-floating swap agreement. There was also increased fuel usage at the Ottawa plant due to higher customer steam load and gas sold on the spot market, which was partially offset by decreased fuel usage at the Windsor-Essex plant due to lower production. Furthermore, 2002 results reflect a favourable one-time gas transportation adjustment of $2.0 million due to a regulatory decision related to 2001, received in 2002.

Depreciation

Years ended Dec. 31 *(in millions)*	**2003**	**2002**
Depreciation	$ 38.3	$ 27.9

For the year ended Dec. 31, 2003, depreciation expense increased by $10.4 million over 2002 due to the addition of the Sheerness plant and increased production at the Ottawa plant. This was partially offset by decreased depreciation expense of $0.4 million resulting from the replacement of a gas turbine with a lease pool turbine at the Windsor-Essex plant to facilitate maintenance on the existing turbine in the first quarter of 2003.

Operations & Maintenance Expenses (O&M)

Years ended Dec. 31 *(in millions)*	**2003**	**2002**
O&M	$ 30.6	$ 16.1

O&M for the year ended Dec. 31, 2003 increased by $14.5 million compared to the same period in 2002 as a result of the addition of the Sheerness plant, increased planned maintenance outages costs at the three Ontario plants and the one-time $5.0 million compensation fee associated with the amendment of the management services agreement, as well as increased O&M related to the lease pool turbine at the Windsor-Essex plant in the first quarter of 2003.

Interest Expense

Years ended Dec. 31 *(in millions)*	**2003**	**2002**
Interest expense	$ 4.9	$ 4.9

Interest expense for the year ended Dec. 31, 2003 was consistent with that incurred during the same period of 2002, as the decrease in interest on long-term debt was offset by interest on the levelization account.

OUTLOOK

The following matters related to TA Cogen may have an impact on the earnings of TransAlta Power.

Power Prices

Electricity spot prices for the Alberta market in 2004 are expected to be slightly lower than those in 2003 due to a reduction in natural gas prices from early 2003 levels, increased system-wide reserve margins and increased hydro production. In 2003, approximately 79 per cent of revenues from the Sheerness plant were fixed under the PPA and of the 21 per cent variable revenue, 16 per cent represents a recovery of variable operating costs and the remaining five per cent represents revenue which is impacted by Alberta market prices. For 2004, revenues from the Sheerness plant are expected to increase due to a full year of ownership by TA Cogen, partially offset by lower incentive payments due to lower market prices.

In Ontario, electricity spot prices are also expected to be lower in 2004 than in 2003 due to recommissioning of nuclear power facilities. However, exposure to electricity prices in Ontario is substantially mitigated through firm-price, long-term electricity sales contracts.

Commodity Prices

Coal prices for the Sheerness plant are expected to increase in 2004, as a result of escalation in the fixed and variable costs in the coal agreement with Luscar. As these costs are recovered through the PPA contract, this expected increase will not have a material impact on the net earnings and cash flows of TA Cogen. Gas commodity prices are expected to increase in 2004, due to the escalation of gas prices in the Windsor-Essex gas supply contracts. The gas commodity costs for the Ottawa and Mississauga plants will also escalate as the result of the swap agreement with TEC. Transportation costs for the Ottawa and Mississauga plants are fixed under the transportation swap agreement with TEC. Under the transportation agreement with TransCanada PipeLines Ltd., transportation costs for the Windsor-Essex plant are expected to increase in 2004. The Fort Saskatchewan plant has no exposure to movements in gas commodity or transportation costs as the customer supplies all gas necessary for use in the plant.

Capital Expenditures

Capital expenditures for 2004 are expected to be approximately $12 million, the majority of which will be for a turnaround and uprate of generating capacity at the Sheerness plant. TA Cogen will finance planned maintenance expenditures through cash flows from operations and by drawing on the funds advanced by TEC in 2004.

New Accounting Standards

Effective Jan. 1, 2003, TA Cogen early adopted the new Canadian Institute of Chartered Accountants (CICA) standard for accounting for asset retirement obligations. Under the new standard, TA Cogen recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. Previously, no provision for future site restoration of gas generation plants had been recognized as the costs of restoration were expected to be offset by the salvage value of the related plant. TA Cogen recorded an asset retirement obligation for all generating facilities, as it is legally required to remove the facilities at the end of their useful lives and restore the plant sites to their original condition. TA Cogen has recognized legal obligations arising from government legislation, written agreements between entities, case law and promises conveyed to third parties that impose reasonable expectations of performance upon TA Cogen under the doctrine of promissory estoppel. The asset retirement liabilities are recognized when the asset retirement obligation is incurred. The effect of this change in accounting policy was recorded retroactively with restatement of prior periods. The impact of adopting this standard was not material to the consolidated financial statements.

The CICA established a new standard on the disposal of long-lived assets and discontinued operations. This standard was effective May 1, 2003, however, TA Cogen early adopted the standard on Jan. 1, 2003. The standard requires that a long-lived asset to be disposed of other than by sale shall continue to be classified as held and used until it is disposed of. Certain criteria must be met before a long-lived asset can be classified as held for sale. The standard also defines discontinued operations more broadly than previously and prohibits the inclusion of future operating losses in a loss recognized upon classification of a long-lived asset as held for sale. The impact of adopting this standard was not material to the consolidated financial statements.

Changes in Accounting Policy

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into on construction of the Windsor-Essex plant and has a life equal to the long-term contract. These levelization amounts were recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the long-term contract. In 2003, the levelization payments reversed and TA Cogen began to repay the levelization payments and interest to TEC. During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. This change in accounting policy has been accounted for retroactively, with restatement of prior periods' financial results. The impact of this change in accounting policy was not material to the consolidated financial statements.

BALANCE SHEET

TransAlta Power

The following summarizes significant changes in the balance sheets of TransAlta Power between Dec. 31, 2002 and Dec. 31, 2003:

(in millions)		Increase/ (decrease)	Explanation
Cash	$	–	Refer to Statements of Cash Flows.
Accounts receivable		3.0	Increased receivable for warrants exercised at Dec. 31, 2003.
Distribution receivable from TA Cogen		7.0	Increased distributions from TA Cogen due to the accrual of January and February 2004 distributions declared in 2003.
Investment in TA Cogen		299.9	Acquisition of additional partnership units in TA Cogen for $315.0 million, compensation fee of $2.5 million for amending the management services agreement and equity income of $25.8 million, offset by 2003 distributions declared by TA Cogen of $43.4 million.
Accounts payable and accrued liabilities		3.0	Increase in payables to TEC for the repurchase of partnership units as a result of the exercise of warrants.
Distribution payable		7.0	Increased distributions payable to TransAlta Power unitholders as the result of the accrual of January and February 2004 distributions declared in 2003.
Partners' equity		299.8	Issuance of 39.8 million partnership units for net consideration of $359.7 million, net income of $24.9 million, offset by distributions declared of $44.6 million and the redemption of 4.3 million partnership units for $40.2 million.

TA Cogen

The following summarizes significant changes in the balance sheets of TA Cogen between Dec. 31, 2002 and Dec. 31, 2003:

(in millions)	Increase/ (decrease)	Explanation
Cash	$ 0.5	Refer to Statements of Cash Flows.
Accounts receivable	(1.3)	Declined as 2002 included two months of accrued receivables compared to one month in 2003. The decline was offset by an increase in receivables from the Balancing Pool of Alberta as a result of the acquisition of the Sheerness plant in July 2003.
Due from TransAlta Energy Corporation	11.8	Increased as the result of a loan to TEC under a $50 million credit facility, offset by increased working captial funding from TEC.
Plants	674.8	Increased as the result of the acquisition of the Sheerness plant in July 2003 and maintenance performed at the Mississauga plant.
Accounts payable and accrued liabilities	13.6	Increased as the result of the acquisition of the Sheerness plant in July 2003 and an increase in accruals related to the Mississauga and Ottawa plants.
Distributions payable	14.0	Distributions payable to TransAlta Power increased as the result of the accrual of January and February 2004 distributions declared in 2003.
Due to TranAlta Energy Corporation	(15.5)	Declined as the loan and working capital funding provided by TEC were repaid.
Long-term debt	(3.4)	Declined as the result of principal repayments in 2003.
Power purchase arrangement	74.2	Increased as a result of the acquisition of the Sheerness plant in July 2003 and the assumption of a fair value liability of $76.0 million relating to the PPA.
Asset retirement liability	4.0	Effective Jan. 1, 2003, TA Cogen adopted the new Institute of Chartered Accountants standard for accounting for asset retirement obligations.

LIQUIDITY AND CAPITAL RESOURCES

TransAlta Power

Years ended Dec. 31 *(in millions)*	2003	2002
Cash and cash equivalents, beginning of period	**$ 0.2**	$ 1.1
Provided by (used in):		
Operating activities	**(0.9)**	(0.6)
Investing activities	**(116.0)**	25.6
Financing activities	**116.9**	(25.9)
Cash and cash equivalents, end of period	**$ 0.2**	$ 0.2

Operating Activities

In 2003, the cash outflow was due to the payment of the compensation fee to TEC, partially offset by interest income on the subscription receipts. In 2002, the cash outflow was due to decreased cash earnings and increased working capital balances.

Investing Activities

In 2003, the cash outflow was the result of the additional investment in TA Cogen partnership units for cash payment of $152.4 million, partially offset by distributions from TA Cogen of $36.5 million. In 2002, the cash inflow was the result of cash distributions received from TA Cogen of $25.6 million.

Financing Activities

In 2003, the cash inflow resulted from proceeds on the issuance of partnership units to the public of $165.1 million, less issue costs of $10.6 million, partially offset by increased distributions made to unitholders of $37.6 million. In 2002, the cash outflow represented distributions paid to unitholders of $25.2 million, in addition to repayments made to TEC of $0.7 million.

Financing Arrangements

On April 10, 2002, TransAlta Power implemented a Normal Course Issuer Bid Program (NCIB) under which a maximum of 350,000 partnership units could be repurchased up to April 11, 2003. No units were repurchased under the program. The NCIB expired on April 11, 2003 and was not renewed.

On July 1, 2003, a $10.0 million credit facility was established between TEC and TransAlta Power whereby TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent.

On Dec. 15, 2003, TransAlta Power announced its Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan (DRIP) to be effective beginning with the monthly cash distribution payable on Jan. 31, 2004. The DRIP allows eligible unitholders to direct that their monthly cash distributions be reinvested in additional units at 95 per cent of the average market price. The DRIP also provides an alternative where eligible unitholders may elect, under the premium distribution component, to have these additional units delivered in exchange for a premium distribution equal to 102 per cent of the cash distribution that such unitholders would have otherwise been entitled to receive on the distribution date, subject to proration in certain circumstances. Finally, the DRIP allows those unitholders who participate in either the regular distribution reinvestment or premium distribution component to purchase additional units from treasury for cash at a purchase price equal to 95 per cent of the average market price subject to an overall limit of two per cent of the units outstanding at the beginning of the year.

At Dec. 31, 2003, TransAlta Power had a working capital ratio of 102 per cent compared to 110 per cent at Dec. 31, 2002. TransAlta Power does not forsee any inability to meet obligations as they come due.

At Dec. 31, 2003, TransAlta Power had no contractual obligations related to repayments of long-term debt or other commitments.

Stability Ratings

In July 2003, the Dominion Bond Rating Service assigned TransAlta Power a stability rating of STA-2 (mid). Standard and Poor's assigned TransAlta Power a stability rating of SR-1 (negative).

Units Outstanding

At Feb. 27, 2004, TransAlta Power had 69.7 million units outstanding with a book value of $517.4 million or $7.42 per unit. The balance of warrants outstanding at Feb. 27, 2004 was 10.7 million, with an aggregate subscription value of $99.8 million.

TA Cogen

Years ended Dec. 31 *(in millions)*	2003	2002
Cash and cash equivalents, beginning of period	$ 0.2	$ 2.0
Provided by (used in):		
Operating activities	79.3	58.1
Investing activities	(157.3)	(5.9)
Financing activities	78.5	(54.0)
Cash and cash equivalents, end of period	$ 0.7	$ 0.2

Operating Activities

In 2003, the cash inflow was due to increased cash flows as the result of the acquisition of the Sheerness plant. In 2002, the cash inflow was due to increased cash earnings, offset by increased working capital balances.

Investing Activities

In 2003, the cash outflow was the result of the $149.8 million cash payment made to TEC for the acquisition of the Sheerness plant and $7.5 million in planned maintenance. In 2002, the cash outflow reflected $8.8 million in planned maintenance, partially offset by dispositions of assets of $1.0 million and capital expenditure recoveries from Dow Chemical of $1.9 million.

Financing Activities

In 2003, the cash inflow resulted from $154.9 million in cash proceeds from the issuance of partnership units to TransAlta Power ($152.4 million) and TEC ($2.5 million), partially offset by $72.9 million in distributions paid to unitholders and $3.4 million in repayment of long-term debt. In 2002, the cash outflow resulted from distributions of $51.1 million paid to unitholders, in addition to repayment of long-term debt of $3.2 million.

Financing Arrangements

On Sept. 30, 2003, a $10.0 million revolving credit facility was established between TA Cogen and TransAlta Power whereby TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent.

TA Cogen also increased the maximum amount of borrowing permitted under its existing credit facility with TEC, which bears interest at the equivalent term cost of funds plus 1.25 per cent, from $20.0 million to $50.0 million.

Long-term debt is comprised of notes payable, which bear interest at a fixed rate of 7.41 per cent and mature on Nov. 30, 2014.

At Dec. 31, 2003, TA Cogen had a working capital ratio of 105 per cent compared to 109 per cent at Dec. 31, 2002. TA Cogen does not forsee any inability to meet obligations as they come due.

At Dec. 31, 2003, TA Cogen had the following contractual obligations related to repayments of long-term debt and other commitments.

Years ended Dec. 31 *(in millions)*	2004	2005	2006	2007	2008	Thereafter
Long-term debt	$ 3.7	$ 3.9	$ 4.2	$ 4.5	$ 4.9	$ 37.4
Levelization obligation	0.5	1.0	1.8	2.7	2.1	–
Transportation swap	14.9	14.9	14.9	12.4	–	–
Fixed-for-floating swap	41.8	44.1	–	–	–	–
Luscar coal supply agreements	13.7	13.7	13.7	13.7	13.7	246.7
Total	$ 74.6	$ 77.6	$ 34.6	$ 33.3	$ 20.7	$ 284.1

TA Cogen anticipates that operations will generate sufficient cash flow to allow it to meet these commitments as they fall due.

OFF-BALANCE SHEET ARRANGEMENTS

Disclosure is required of all off-balance sheet arrangements such as transactions, agreements or contractual arrangements with unconsolidated entities, structured finance entities, special purpose entities or variable interest entities that are reasonably likely to materially affect liquidity or the availability of, or requirements for, capital resources.

TransAlta Power has no such off-balance sheet arrangements.

Fixed-price contracts and swaps are used to hedge TA Cogen's exposure to fluctuations in commodity and transportation costs. Gains and losses are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet. Contracts for the physical delivery or supply of electricity and gas at fixed pricing terms are not considered to be derivatives and are accounted for on a settlement basis.

For the period from Nov. 1, 2002 to Nov.1, 2007, TA Cogen entered into a transportation swap transaction with a wholly owned subsidiary of TEC. The business purpose of the transportation swap was to provide TA Cogen with a fixed gas delivery price for the Mississauga and Ottawa plants without being exposed to escalating costs of pipeline transportation over the period of the swap in order to stabilize cash distributions in TA Cogen. The notional gas volume in the transaction was the total delivered fuel for both facilities.

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed-price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TEC's account.

RELATED PARTY TRANSACTIONS

During the year, TransAlta Power and TA Cogen engaged in the following related party transactions:

Partnership Unit Issuance to TEC

In July 2003, in connection with TransAlta Power and TA Cogen's acquisition of an interest in the Sheerness plant, TransAlta Power and TA Cogen engaged in certain related party transactions with TEC. See the Significant Events in 2003 and 2002 section of this MD&A.

Management Services

TEC provides management services to TransAlta Power and TA Cogen under the terms and conditions set out in management agreements. The agreements were amended in connection with the acquisition of the Sheerness plant in 2003. See the Significant Events in 2003 and 2002 section of this MD&A.

Credit Facilities

On July 1, 2003, a $10.0 million revolving credit facility was established between TransAlta Power and TEC whereby TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent. No amount was drawn on this facility at Dec. 31, 2003. The effective interest rate in 2003 was 4.89 per cent. Interest expense incurred was $0.03 million.

On Sept. 30, 2003, a $10.0 million credit facility was established between TA Cogen and TransAlta Power whereby TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent. No amount was yet drawn on this facility at Dec. 31, 2003. No interest expense was incurred in 2003. The interest rate on this facility in 2003 was 4.74 per cent.

TA Cogen increased the maximum amount of borrowing permitted under its existing credit facility with TEC, which bears interest at the equivalent term cost of funds plus 1.25 per cent, from $20.0 million to $50.0 million. The effective interest rate on this facility in 2003 was 4.57 per cent (2002 - 3.68 per cent). No amount was drawn on this facility at Dec. 31, 2003 (2002 - $11.9 million). Interest expenses incurred were $0.1 million (2002- $0.1 million).

On Sept. 30, 2003, an additional $50.0 million credit facility was established between TA Cogen and TEC whereby TA Cogen can lend funds to TEC at the equivalent term cost of funds plus 1.25 per cent. The balance outstanding as at Dec. 31, 2003 was $16.9 million, with interest related income earned of $0.1 million. The effective interest rate on this facility in 2003 was 4.74 per cent.

Fixed-For-Floating Gas Swap and Transportation Swap

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC. See Off-Balance Sheet Arrangements section on the previous page.

Ottawa Gas Supply Agreement

In order to secure a long-term natural gas supply for the Ottawa plant, TA Cogen has committed to purchase firm volumes of gas from TEC until Nov. 1, 2007 under a gas supply agreement. In 2003, $11.5 million was charged to cost of fuel expense (2002 - $11.2 million) with respect to purchases under this agreement.

Levelization Repayment Obligation

Pursuant to an agreement dated April 2, 1998, TA Cogen receives levelization payments from TEC in respect of the Windsor-Essex plant to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the long-term contract. The levelization agreement was entered into on the construction of the plant and has a life equal to the long-term contract. In 2003, the levelization payments reverse and TA Cogen began to repay the levelization payments and interest to TEC. These amounts are recorded as a future repayment obligation to TEC. TA Cogen made principal repayments of $0.1 million in 2003 (2002 - $0.4 million).

RISK FACTORS AND RISK MANAGEMENT

TEC provides risk management services to TransAlta Power and TA Cogen as part of the management services agreements. The following addresses some risk factors, but not all, that could affect TransAlta Power's and TA Cogen's future results.

Distributions

Distributions by TransAlta Power may fluctuate, depending upon numerous factors including: plant performance; the market price of natural gas; gas transportation costs; operating cash flow; its seasonality; general and administrative costs; planned maintenance costs; debt service costs and capital expenditures.

TA Cogen expects to complete planned maintenance on its plants. TransAlta Power expects that TA Cogen will finance planned maintenance expenditures through drawings on funds advanced from TEC. Borrowings under its credit facilities, cash from operations and the issuance of additional units may also be used, thereby reducing the impact of such expenditures on distributable cash. There can be no assurance that the planned maintenance expenditures will not result in greater variations in cash available for distribution than have been experienced in the past. The amount of cash available for distribution to a unitholder may be less than or greater than the amount of income allocated to the unitholder for tax purposes.

Operational Risks

The operational performance of the plants is the primary driver of the financial results. The plants have been designed to operate continuously except during planned and unplanned outages. TA Cogen's comprehensive plant maintenance program and regular turnarounds are designed to minimize down time and maximize operating results. This program includes participation in a lease pool for the gas turbines that minimizes the possibility of an extended down time by having replacement engines available on relatively short notice for use in the gas-fired power plants.

If the plants do not meet the availability targets specified in the contracts, then the plants must either pay a penalty for the shortfall in availability based on the rolling average pool price or experience a reduction in electrical or capacity payments. Consequently, an extended outage could have a material adverse effect on the business, financial position, results of operations, or cash flows of TA Cogen. The risk of an extended outage is mitigated through ongoing monitoring of equipment condition and the development of long-term maintenance plans.

PPA and Long-Term Contracts

PPAs are long-term arrangements that apply to the previously regulated Alberta generation plants. Under the terms of a PPA, a single customer has the rights to the entire production of a plant or unit for the length of the PPA.

The Sheerness plant operates under a PPA that establishes committed capacity and electrical energy generation requirements and availability targets to be achieved and the pricing formula at which capacity and power is supplied. TA Cogen bears the risk or retains the benefit of volume variances (except for those arising from events considered to be force majeure) and any change in costs required to maintain and operate the facilities. Certain components of the PPA capacity payment representing predetermined fixed operating, maintenance and fuel costs are escalated based on certain indices published by Statistics Canada. The component of the capacity payment representing a return on equity is indexed to changes in the Canadian long-term bond rate.

The Ottawa, Mississauga and Windsor-Essex long-term contracts have different pricing provisions for power produced during summer and winter, as well as for on-peak and off-peak hours. The OEFC is obligated to pay for all electricity delivered during on-peak hours and off-peak hours, subject to stipulated maximums, at the applicable energy rates. The energy payments are equal to the monthly energy delivered by these facilities multiplied by the applicable energy rate, which is either a summer energy rate or a winter energy rate. In addition, each plant receives a capacity payment for electricity delivered during on-peak hours, subject to stipulated maximum monthly quantities, and subject to the on-peak deliveries exceeding a minimum of the stipulated maximum monthly quantities. These plants bear the risk of volume variances (except for those arising from events considered to be force majeure) as they relate to meeting contractual production obligations. The energy and capacity rates escalate based on contractual minimum yearly escalators and/or changes to the OEFC direct customer rate.

Fuel Supply

Based on the forecasted consumption rate for coal for the Sheerness plant, the coal reserves at the Sheerness mine (including certain coal lands within the permit area of the Sheerness mine that are not currently dedicated to the Sheerness plant) are expected to be adequate to supply coal to the Sheerness plant until the projected retirement of the Sheerness plant in 2026. However, no assurance can be given that a sufficient quantity of coal reserves will be available to supply coal to the Sheerness plant over its life. In the event of a coal supply deficiency or disruption, the business, financial position, results of operations, or cash flows of TransAlta Power may be adversely affected.

The transportation swap agreement that TA Cogen has entered into with TEC, which provides TA Cogen with a fixed gas delivery price for the Ottawa and Mississauga plants without exposing it to escalating costs of pipeline transportation, expires in November 2007. There can be no assurance that the expiry of the transportation swap agreement will not result in greater variability of gas transportation costs.

TA Cogen has exposure to movements in certain commodity prices, including natural gas commodity prices and transportation costs.TA Cogen has gas supply contracts ranging from four to nine years. The remaining terms of the long-term contracts for the Ontario plants range from nine to 14 years. The long-term gas supply contracts for the three Ontario plants limit the price TA Cogen pays to suppliers within a pre-determined escalating range. The long-term gas supply agreements to TA Cogen's three Ontario plants will expire at various points in time prior to the end of the long-term contracts. TA Cogen will be exposed to gas price market movements when those contracts expire, unless other arrangements are made with suppliers.

Additionally, TA Cogen has mitigated exposure to natural gas commodity prices with a 61-month fixed-for-floating swap with TEC, which establishes the price to be paid for gas for the Mississauga and Ottawa plants. In January 2006, the Mississauga and Ottawa plants will be subject to the pricing in the underlying long-term gas contracts. TA Cogen continues to actively explore options to minimize the long-term cost of gas.

Gas transportation costs are dictated by long-term contracts subject to rates set through a regulatory process. The Windsor-Essex plant currently has a long-term contract with TransCanada PipeLines Ltd., expiring at Oct. 31, 2006. TA Cogen has a transportation swap agreement for the Ottawa and Mississauga plants with TEC that expires on Nov. 1, 2007. This provides TA Cogen with a fixed gas delivery price for the Ottawa and Mississauga plants eliminating exposure to fluctuating costs on TransCanada PipeLines Ltd. There can be no assurance that the expiry of the transportation swap agreement will not result in greater variability of gas transportation costs.

Credit Risk

TA Cogen actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts.

Interest Rate Exposure

TA Cogen has exposure to movements in interest rates and manages this exposure by minimizing the amount of debt subject to floating interest rates.

Kyoto Protocol

On Dec. 17, 2002, the Canadian government ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the Kyoto Protocol). TransAlta Power is not able to estimate the full impact that the Kyoto Protocol will have on its operations. However, the Sheerness PPA contains a "change of law" provision that provides an opportunity to recover compliance costs from the Balancing Pool of Alberta should compliance with the Kyoto Protocol be required due to a "change of law".

Relationship to TEC and TAC

TransAlta Power is dependent on TEC in respect of the management of TransAlta Power.

Certain conflicts of interest could arise as a result of TAC's relationship between TransAlta Power Ltd., the general partner of TransAlta Power, and TEC and its affiliates, on the one hand, and TransAlta Power on the other. Both the Partnership Agreement and the TA Cogen Partnership Agreement contain provisions that require the independent committees of the general partners of TransAlta Power or TA Cogen, as applicable, to approve transactions with TAC or its subsidiaries.

General Economic Conditions

Changes in general economic conditions impact prices received for non-contracted revenue, operating costs, the timing and extent of capital expenditures, the net recoverable value of power plants, the results of financing efforts, credit risk and counterparty risk.

Legal Contingencies

TransAlta Power and TA Cogen are occasionally named as a defendant in various claims and legal action. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. TransAlta Power and TA Cogen do not expect the outcome of the claims or potential claims to have a materially adverse effect on the partnerships as a whole.

Other Contingencies

TransAlta Power maintains a level of insurance coverage deemed appropriate by management, where insurance coverage can be maintained. There were no significant changes to TransAlta Power's insurance coverage during 2003.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TransAlta Power has no critical accounting policies that require management to make significant estimates or assumptions.

The selection and application of accounting policies is an important process that has developed as TA Cogen's activities have evolved and as accounting rules have changed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules and the use of judgment relative to the circumstances existing in TA Cogen's business. Every effort is made to comply with all applicable rules on or before the effective date, and TA Cogen believes the proper implementation and consistent application of accounting rules is critical. However, not all situations are specifically addressed in the accounting literature. In these cases, TA Cogen's best judgment is used to adopt a policy for accounting for these situations. This is accomplished by analogizing to similar situations and the accounting guidelines governing them, consideration of foreign accounting standards and consultation with TA Cogen's independent auditors about the appropriate interpretation and application of these policies.

TA Cogen's significant accounting policies are described in *Note 2* to its consolidated financial statements. The most critical of these policies for TA Cogen are those related to the valuation of power plants and the useful life of power plants. Each policy involves a number of estimates and assumptions to be made by management about matters that are highly uncertain at the time the estimate is made. Different estimates, with respect to key variables TA Cogen used for the calculations or changes to estimates, could potentially have a material impact on its financial position or results of operations. These critical accounting estimates are described below.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee and TA Cogen's independent auditors. The Audit Committee has reviewed and approved TA Cogen's disclosure relating to critical accounting estimates in this MD&A.

Valuation of Power Plants

On an annual basis, and when indicators of impairment exist, TA Cogen determines whether the net carrying amount of power plants is recoverable from future undiscounted cash flows. Factors which could indicate that impairment exists include significant underperformance relative to historical or projected operating results, significant changes in the manner or use of the assets, the strategy for TA Cogen's overall business and significant negative industry or economic trends. In some cases, these events are clear. However, in many cases, a clearly identifiable event indicating possible impairment does not occur. Instead, a series of individually insignificant events occur over a period of time leading to an indication that an asset may be impaired. This can be further complicated in situations where TA Cogen is not the operator of the project. Events can occur in these situations that may not be known until a date subsequent to their occurrence.

TA Cogen's business, the markets and business environment are continually monitored, and judgments and assessments are made to determine whether an event has occurred that indicates possible impairment. If such an event has occurred, an estimate is made of the future undiscounted cash flows from the asset. If the total of the undiscounted future cash flows (excluding financing charges with the exception of plants that have specifically dedicated debt) is less than the carrying amount of the asset, an asset impairment must be recognized in the consolidated financial statements. The amount of the impairment recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be bought or sold in a current transaction between willing parties, and is best estimated by calculating the net present value of future expected cash flows related to the asset. Both the identification of events that may trigger an impairment and the estimates of future cash flows and the fair value of the asset require considerable judgment.

Power plants make up 97 per cent of TA Cogen's assets. Plants are reviewed for impairment annually and when conditions of impairment exist.

The assessment of asset impairment requires management to make significant assumptions about future sales prices, cost of sales, production and fuel consumed over the life of the plants (up to 30 years), retirement costs and discount rates. In addition, when impairment tests are performed, the estimated useful lives of the plants are reassessed, with any change accounted for prospectively.

In estimating future cash flows of the plants, TA Cogen used estimates based on contracted and future market prices based on expected market supply and demand in the region in which the plant operates, anticipated production levels, planned and unplanned outages, and transmission capacity or constraints for the remaining life of the plant. Actual results can, and often do, differ from the estimates, and can have either a positive or negative impact on the estimate of the impairment charge, and may be material.

The results of TA Cogen's annual impairment review showed no indications of impairment.

TA Cogen recognizes asset retirement obligations (ARO) on plants in the period in which they are incurred if a reasonable estimate of a fair value can be determined. The fair value of the liability is described as the amount at which the liability could be settled in a current transaction between willing parties. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many ARO's. Expected values are discounted at the risk-free interest-rate adjusted to reflect the market's evaluation of the entity's credit standing. Determining ARO requires estimated life of the related asset and estimated costs of activities such as demolition, dismantling, restoration and remedial work based on present day methods and technologies.

Sensitivities for the major assumptions are as follows:

Assumption	Change in assumption	Impact on pre-tax earnings	Impact on cash flow from operations
Discount rate	5%	$ 0.3	$ –
Asset retirement obligation	5%	$ –	$ –

Useful Life of Power Plants

The majority of TA Cogen's power plants are related to the partnership's generating activities. Power Plants are depreciated over their estimated useful lives. The estimated useful lives were determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence. Major components of plants are depreciated over their own useful lives. A component is a tangible asset that can be separately identified as an asset, and is expected to provide a benefit of greater than one year.

The rates used are reviewed on an ongoing basis to ensure they continue to be appropriate, and are also reviewed in conjunction with impairment testing, as previously discussed.

SELECTED ANNUAL FINANCIAL INFORMATION

TransAlta Power

(in millions except per unit amounts)	2003	2002[2]	2001[1,2]
Revenue	$ 25.8	$ 18.9	$ 13.9
Net income	$ 24.9	$ 18.5	$ 13.6
Net income per unit	$ 0.51	$ 0.54	$ 0.45
Cash available for distribution [3]	$ 44.5	$ 25.3	$ 23.3
Cash available for distribution per unit [3]	$ 0.91	$ 0.74	$ 0.76
Cash distributions paid	$ 37.6	$ 25.2	$ 26.6
Cash distributions paid per unit	$ 0.76	$ 0.74	$ 0.73
Total assets	$ 573.5	$ 263.6	$ 272.0

TA Cogen

(in millions)	2003	2002[2]	2001[1,2]
Revenue	$ 209.2	$ 154.5	$ 144.1
Net income	$ 51.6	$ 37.7	$ 27.8
Cash available for distribution [3]	$ 85.1	$ 57.2	$ 46.6
Cash distributions paid	$ 72.9	$ 51.1	$ 52.7
Total assets	$ 1,306.3	$ 619.7	$ 642.5
Total long-term debt	$ 58.7	$ 62.1	$ 65.2

Note:

1 Restated to reflect TA Cogen's change in accounting policy for levelization payments. The change was accounted for retroactively, with a restatement of the prior period's financial results. The impact of changing this policy was not material to the consolidated financial statements.

2 Restated to reflect TA Cogen's adoption of the new standard for asset retirement obligations on Jan. 1, 2003. TA Cogen adopted the change retroactively with restatement of prior periods. The impact of adopting this policy was not material to the consolidated financial statements.

3 Cash available for distribution is a measure of earnings that is not defined under GAAP. See the Financial Highlights section of this MD&A for further discussion and a reconciliation of net income to cash available for distribution.

SELECTED QUARTERLY FINANCIAL INFORMATION

TransAlta Power

Year ended Dec. 31, 2003 *(in millions except per unit amounts)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 4.8	$ 1.6	$ 4.7	$ 14.7	$ 25.8
Net income	$ 4.7	$ 1.4	$ 4.2	$ 14.6	$ 24.9
Net income per unit	$ 0.14	$ 0.04	$ 0.07	$ 0.21	$ 0.51
Cash distributions paid	$ 6.4	$ 6.4	$ 11.2	$ 13.6	$ 37.6
Cash distributions paid per unit	$ 0.19	$ 0.19	$ 0.19	$ 0.19	$ 0.76
Cash available for distribution[1]	$ 6.4	$ 6.2	$ 16.1	$ 15.8	$ 44.5
Cash available for distribution per unit[1]	$ 0.19	$ 0.18	$ 0.28	$ 0.23	$ 0.91

TA Cogen

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Revenues	$ 43.2	$ 33.3	$ 54.3	$ 78.4	$ 209.2
Net income	$ 9.6	$ 3.1	$ 9.4	$ 29.5	$ 51.6
Cash distributions paid	$ 12.9	$ 12.8	$ 22.6	$ 24.6	$ 72.9
Cash available for distribution[1]	$ 13.2	$ 7.1	$ 24.0	$ 40.8	$ 85.1

1 Cash available for distribution is a measure of earnings that is not defined under GAAP. See the Financial Highlights section of this MD&A for further discussion. A reconciliation of net income to cash available for distribution is presented on the next page.

TransAlta Power

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ –	$ (0.2)	$ (0.5)	$ (0.2)	$ (0.9)
Deduct: Change in non-cash working capital balances	–	–	–	–	–
Deduct: Purchase of TA Cogen units	–	–	(152.4)	–	(152.4)
Deduct: Redemption of partnership units	–	–	–	(37.2)	(37.2)
Add: Net proceeds on the issuance of partnership units	–	–	155.2	36.4	191.6
Add: Distributions declared from TA Cogen	6.4	6.4	13.8	16.8	43.4
Cash available for distribution	$ 6.4	$ 6.2	$ 16.1	$ 15.8	$ 44.5

TA Cogen

Year ended Dec. 31, 2003 *(in millions)*	Q1	Q2	Q3	Q4	Total
Cash flow from operations	$ 26.0	$ 8.1	$ 14.8	$ 30.4	$ 79.3
Deduct: Changes in non-cash working capital	(9.9)	2.1	5.7	13.8	11.7
Deduct: Non-cash interest expense	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)
Add: Levelization advance from TEC	–	0.1	0.1	0.1	0.3
Add: Proceeds on the issuance of partnership units	–	–	154.9	–	154.9
Deduct: Acquisition of the Sheerness plant	–	–	(149.8)	–	(149.8)
Deduct: Repayment of long-term debt principal	(0.8)	(0.8)	(0.9)	(0.9)	(3.4)
Deduct: Actual capital maintenance spending, net of recoveries	(2.0)	(2.3)	(0.7)	(2.5)	(7.5)
Cash available for distribution	$ 13.2	$ 7.1	$ 24.0	$ 40.8	$ 85.1

TransAlta Power, L.P.

MANAGEMENT'S RESPONSIBILITY

TransAlta Power, L.P.'s management is responsible for the presentation and preparation of the annual financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators and their related published requirements.

The financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration for materiality. In addition, in preparing financial information, the partnership must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements and MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

Ian A. Bourne
President

Marvin J. Waiand
Vice-President, Finance

Feb. 27, 2004

Auditors' Report

TO THE UNITHOLDERS OF TRANSALTA POWER, L.P.

We have audited the balance sheets of TransAlta Power, L.P. (TransAlta Power) as at December 31, 2003 and 2002 and the statements of earnings and deficit, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of TransAlta Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TransAlta Power as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
February 11, 2004

Financial Statements

TRANSALTA POWER, L.P.

Balance Sheets

As at Dec. 31 *(in thousands)*	2003	2002
ASSETS		*(Restated, Note 2)*
Current assets		
Cash	$ 182	$ 164
Accounts receivable	3,030	–
Distributions receivable *(Note 8)*	9,179	2,205
	12,391	2,369
Investment in TransAlta Cogeneration, L.P. *(Notes 2 & 3)*	561,076	261,238
	$ 573,467	$ 263,607
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,050	$ 25
Due to TransAlta Energy Corporation	5	14
Distributions payable *(Note 8)*	9,090	2,124
	12,145	2,163
PARTNERS' EQUITY		
Partnership units *(Notes 4, 5 & 9)*	633,494	313,951
Contributed surplus	381	381
Deficit	(72,553)	(52,888)
	561,322	261,444
	$ 573,467	$ 263,607

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
Chairman

Ian A. Bourne
Director

Statement of Partners' Equity

(in thousands except number of units outstanding)

	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 2001 as previously reported	33,987,700	$ (4)	$ 269,068	$ 269,064
Restatement for change in accounting policy *(Note 2)*		–	(885)	(885)
Balance, Dec. 31, 2001 - Restated	33,987,700	$ (4)	$ 268,183	$ 268,179
Net income - Restated		2	18,518	18,520
Distributions declared		(3)	(25,252)	(25,255)
Balance, Dec. 31, 2002	33,987,700	$ (5)	$ 261,449	$ 261,444
Partnership units issued *(Note 5)*	39,821,516	–	370,340	370,340
Redemption *(Note 5)*	(4,321,516)	–	(40,190)	(40,190)
Issue costs *(Note 5)*		–	(10,607)	(10,607)
Net income		2	24,895	24,897
Distributions declared		(4)	(44,558)	(44,562)
Balance, Dec. 31, 2003	**69,487,700**	**$ (7)**	**$ 561,329**	**$ 561,322**

See accompanying notes.

TRANSALTA POWER, L.P.

Statements of Earnings and Deficit

Years ended Dec. 31 *(in thousands except per unit amounts)*	2003	2002
Revenues		*(Restated, Note 2)*
Equity income from TransAlta Cogeneration, L.P.	$ 25,777	$ 18,853
Expenses		
Management and administration *(Notes 5 & 8)*	1,553	287
Net interest (income) expense	(673)	46
	880	333
Net income	$ 24,897	$ 18,520
Net income per unit	$ 0.51	$ 0.54
Weighted average number of units outstanding	48,869	33,988
Deficit, beginning of period	$ (52,737)	$ (45,268)
Restatement for change in accounting policy *(Note 2)*	(151)	(885)
Deficit, beginning of period restated	(52,888)	(46,153)
Net Income	24,897	18,520
Distributions declared	(44,562)	(25,255)
Deficit, end of period	$ (72,553)	$ (52,888)

See accompanying notes.

Statements of Cash Flows

Years ended Dec. 31 *(in thousands except per unit amounts)*	2003	2002
Operating activities		*(Restated, Note 2)*
Net income	$ 24,897	$ 18,520
Equity income from TransAlta Cogeneration, L.P.	(25,777)	(18,853)
Change in non-cash operating working capital balances	(14)	(229)
Cash used in operating activities	(894)	(562)
Investing activities		
Investment in TransAlta Cogeneration, L.P.	(152,425)	–
Distributions received from TransAlta Cogeneration, L.P.	36,465	25,566
Cash provided by (used in) investing activities	(115,960)	25,566
Financing activities		
Repayment to TransAlta Energy Corporation	–	(741)
Net proceeds from issuance of partnership units *(Note 5)*	191,640	–
Redemption of partnership units *(Note 5)*	(37,172)	–
Distributions paid to unitholders	(37,596)	(25,222)
Cash provided by (used in) financing activities	116,872	(25,963)
Increase (decrease) in cash	18	(959)
Cash, beginning of year	164	1,123
Cash, end of year	$ 182	$ 164
Cash interest paid	$ 13	$ 46
Cash distributions paid per unit	$ 0.76	$ 0.74

See accompanying notes.

NOTES TO TRANSALTA POWER, L.P. FINANCIAL STATEMENTS

For the years ended Dec. 31, 2003 and 2002

(dollar amounts in millions except per unit amounts)

1. DESCRIPTION OF BUSINESS

TransAlta Power, L.P. (TransAlta Power) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TransAlta Power Partnership Agreement. On April 2, 1998, TransAlta Power acquired a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen). TransAlta Energy Corporation (TEC) is retained by TransAlta Power to provide certain management, administrative and other services. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC) through two wholly owned subsidiaries: TEC (50.0 per cent) and TransAlta Cogeneration Ltd. (0.01 per cent).

2. SIGNIFICANT ACCOUNTING POLICIES

A. Change in TA Cogen's Accounting Policies

As the result of the following change in TA Cogen's accounting policies, equity income and investment in TA Cogen and retained earnings have been retroactively restated.

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into on construction of the Windsor-Essex plant and has a life equal to the long-term contract. These levelization amounts were recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the long-term contract. In 2003, the levelization payments reversed and TA Cogen began to repay the levelization payments and interest to TEC. During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. This change in accounting policy has been accounted for retroactively, with restatement of prior periods' financial results. The impact on net income for year ended Dec. 31, 2002 was a reduction of $0.3 million.

Effective Jan. 1, 2003, TA Cogen early adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, TA Cogen recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. Previously, no provision for future site restoration for gas generation plants had been recognized as the costs of restoration were expected to be offset by the salvage value of the related plant.

TA Cogen recorded an asset retirement obligation for all generating facilities, as it is legally required to remove the facilities at the end of their useful lives and restore the plant sites to their original condition. TA Cogen has recognized legal obligations arising from government legislation, written agreements between entities, case law and promises conveyed to third parties that impose reasonable expectations of performance upon TA Cogen under the doctrine of promissory estoppel. The asset retirement liabilities are recognized when the asset retirement obligation is incurred.

The effect of this change in accounting policy was recorded retroactively with restatement of prior periods. The impact on net income was a reduction of of $0.1 million. The impact on net income per unit was not material for the year ended 2003 or 2002. The effect of the adoption on prior periods is presented below:

		Decrease
Balance sheet:		
As at Dec. 31, 2002		
Investment in TA Cogen	$	(1.0)
Deficit, Jan. 1, 2002	$	(0.9)
Statement of earnings:		
For the year ended Dec. 31, 2002		
Equity income from TA Cogen	$	(0.1)
Net income	$	(0.1)

B. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

C. Investment in TA Cogen

The investment in TA Cogen is accounted for using the equity method, whereby TransAlta Power's share of TA Cogen's earnings is included in TransAlta Power's earnings and increases its investment in TA Cogen. Distributions by TA Cogen decrease TransAlta Power's investment in TA Cogen.

D. Revenue Recognition

Revenue consists of equity income from TA Cogen. TransAlta Power recognizes its 49.99 per cent share as income is earned by TA Cogen. TA Cogen recognizes revenue based on its stated policy.

E. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

F. Financial Instruments

The carrying amounts of TransAlta Power's financial assets and financial liabilities approximate their fair values.

3. INVESTMENT IN TA COGEN

TransAlta Power acquired a 49.99 per cent interest in TA Cogen on April 1, 1998. The investment is accounted for using the equity method. Book values at the time of the initial acquisition approximated fair values.

4. NORMAL COURSE ISSUER BID

On April 10, 2002, TransAlta Power implemented a Normal Course Issuer Bid Program (NCIB) under which a maximum of 350,000 partnership units could be repurchased up to April 11, 2003. No units were repurchased under the program. The NCIB expired on April 11, 2003 and was not renewed.

5. PARTNERSHIP UNIT ISSUANCE

In connection with TransAlta Power's indirect acquisition of an approximate 25 per cent interest in the Sheerness plant in July 2003, TransAlta Power issued 17.75 million subscription receipts to the public for gross cash proceeds of $165.1 million and issue costs of $10.6 million. In addition, TransAlta Power issued 17.75 million private subscription receipts to TEC at fair value, reflecting the market value of TransAlta Power units, for gross proceeds of $165.1 million at $9.30 per unit in the form of a note receivable. TransAlta Power used the cash received from the issuance of subscription receipts to the public and the note receivable from TEC to subscribe for limited partnership units of TA Cogen in the amount of $315.0 million.

On July 31, 2003, TA Cogen acquired a 50.0 per cent interest in the Sheerness plant for $629.8 million, which included approximately $4.2 million of working capital, the assumption of an asset retirement obligation of $3.7 million and the assumption of a fair value liability relating to a power purchase arrangement of $76.0 million. The acquisition was funded through the issuance of partnership units to TEC for $315.0 million and to TransAlta Power for $315.0 million. TA Cogen's interest in the Sheerness plant is accounted for as a joint venture and accordingly reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

On July 31, 2003, each TransAlta Power public subscription receipt was exchanged for one unit and one warrant and each private subscription receipt was exchanged for one unit, without payment of additional consideration. Each warrant entitles the holder to acquire one partnership unit at a price of $9.30 per unit during a period of one year ending on Aug. 3, 2004. Pursuant to the "Delivery Agreement" between TransAlta Power and TEC, as the warrants are exercised, TEC will sell TransAlta Power units back to TransAlta Power for $9.30 per unit. On the assumption that the warrants are fully exercised, TEC's ownership interest in TransAlta Power will be reduced from approximately 26 per cent to nil. At Dec. 31, 2003, TEC's ownership in TransAlta Power was 19.3 per cent, after the exercise of 4.3 million warrants, for total proceeds of $40.2 million of which $37.2 million was received at the balance sheet date. The balance of warrants outstanding at Dec. 31, 2003 was 13.4 million, with an aggregate subscription value of $124.9 million.

TEC and TA Cogen have entered into a services agreement pursuant to which TEC will provide TA Cogen with certain management and administrative services with respect to the Sheerness plant. In connection with the acquisition, TEC will continue to provide such services; however, it will not be entitled to receive any fees for providing such services. TEC will continue to be reimbursed by TA Cogen for any expenses and third party costs incurred in providing such services.

As a result of the purchase of the Sheerness plant, some agreements have been amended or terminated to be in alignment with the growth and business strategies of TransAlta Power. The changes are as follows:

- The management services provided by TEC to TransAlta Power will continue, however, the agreement has been amended to remove the mechanism for the deferral of the management fees until TransAlta Power's annual distribution exceeded $0.75 per unit and remove the obligation for TransAlta Power to pay management fees.
- In exchange for the removal of these terms, TransAlta Power paid a one-time compensation fee of $1.0 million to TEC, which was expensed in Management and Administrative Expenses at Dec. 31, 2003.
- The amounts charged by TEC for expenses and third party costs for the year ended Dec. 31, 2003 were $0.2 million (2002 - $0.1 million) and were also expensed in Management and Administrative Expenses at Dec. 31, 2003.
- TAC's buy-back provision which obligated TAC to purchase all of TransAlta Power's interest in TA Cogen on or before Dec. 31, 2018 at fair market value has been terminated, thereby removing the risk to unitholders of having to liquidate their investment in TransAlta Power earlier than they otherwise might choose.

6. CREDIT FACILITIES

TransAlta Power Credit Facility

On July 1, 2003, a $10.0 million revolving credit facility was established between TransAlta Power and TEC. TEC can lend funds to TransAlta Power at the equivalent term cost of funds plus 1.50 per cent, with mandatory payment on demand from TEC. No amount was drawn on this facility at Dec. 31, 2003. The effective interest rate in 2003 was 4.89 per cent. Interest expenses incurred were $0.03 million.

TEC Credit Facility

On Sept. 30, 2003, a $10.0 million credit facility was established between TA Cogen and TransAlta Power. TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TransAlta Power. No amount was drawn on this facility at Dec. 31, 2003. No interest expenses were incurred in 2003. The interest rate on this facility in 2003 was 4.74 per cent.

7. PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN (DRIP)

On Dec. 15, 2003, TransAlta Power announced its DRIP to be effective beginning with the monthly cash distribution payable on Jan. 31, 2004. The DRIP allows eligible unitholders to direct that their monthly cash distributions be reinvested in additional units at 95 per cent of the average market price. The DRIP also provides an alternative where eligible unitholders may elect, under the premium distribution component, to have these additional units delivered in exchange for a premium distribution equal to 102 per cent of the cash distribution that such unitholders would have otherwise been entitled to receive on the distribution date, subject to proration in certain circumstances. Finally, the DRIP allows those unitholders who participate in either the regular distribution reinvestment or premium distribution component to purchase additional units from treasury for cash at a purchase price equal to 95 per cent of the average market price subject to an overall limit of two per cent of the units outstanding at the beginning of the year.

8. RELATED PARTY TRANSACTIONS

During the year, TransAlta Power engaged in the following related party transactions, which were recorded at their exchange amounts and settled under standard commercial terms.

Partnership Unit Issuance to TEC

In July 2003, in connection with TransAlta Power's indirect acquisition of an approximate 25 per cent interest in the Sheerness plant, TransAlta Power engaged in related party transactions with TEC and TA Cogen as discussed in *Note 5*.

Management Services

TEC provides management services to TransAlta Power under the terms and conditions set out in a management agreement. The agreement was amended in connection with the acquisition of the Sheerness plant in 2003 so that TransAlta Power would only be responsible for expenses and third party costs paid by TEC on behalf of TransAlta Power (see *Note 5* for further discussion).

Credit Facilities

In 2003, credit facilities were established between TransAlta Power and TEC and TransAlta Power and TA Cogen (see *Note 6* for further discussion).

Distributions

TA Cogen distributes cash to TransAlta Power in amounts proportionate to its ownership interest in TA Cogen. TransAlta Power, in turn, pays cash distributions to unitholders, including TEC. At Dec. 31, 2003, distributions receivable from TA Cogen were $9.2 million (2002 - $2.2 million). Distributions payable to TEC were $1.9 million (2002 - $nil). The amounts are non-interest bearing.

9. PARTNERS' EQUITY

TransAlta Power is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions, and is not subject to future calls or assessments.

10. INCOME TAXES

The reported amount of TransAlta Power's investment in TA Cogen as at Dec. 31, 2003 exceeds the tax base by $59.9 million (2002 - $39.1 million). The reported amount of TransAlta Power's issuance costs as at Dec. 31, 2003 exceeds the tax base by $20.4 million (2002 - $17.2 million).

TransAlta Cogeneration, L.P.

MANAGEMENT'S RESPONSIBILITY

TransAltá Cogeneration, L.P.'s management is responsible for the presentation and preparation of the annual consolidated financial statements, management's discussion and analysis (MD&A) and all other information in this annual report.

The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The MD&A has been prepared in accordance with the requirements of securities regulators including National Instrument 44-101 of the Canadian Securities Administrators and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgments and estimates of the expected effects of current events and transactions with appropriate consideration for materiality. In addition, in preparing financial information, the partnership must interpret the requirements described above, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MD&A also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected.

The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The Audit Committee of the Board of Directors is comprised of independent directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and MD&A. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the unitholders. The Audit Committee also recommends, for review by the Board of Directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.

Ian A. Bourne
President

Garth A. Wong
Vice-President, Finance

Feb. 27, 2004

Auditors' Report

TO THE UNITHOLDERS OF TRANSALTA COGENERATION, L.P.

We have audited the consolidated balance sheets of TransAlta Cogeneration, L.P. (TA Cogen) as at December 31, 2003 and 2002 and the consolidated statements of earnings and deficit, partners' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of TA Cogen's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of TA Cogen as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
February 11, 2004

Consolidated Financial Statements

TRANSALTA COGENERATION, L.P.

Consolidated Balance Sheets

As at Dec. 31 *(in thousands)*	2003	2002
ASSETS		*(Restated, Note 2)*
Current assets		
Cash	$ 709	$ 232
Accounts receivable *(Note 13)*	29,144	30,424
Due from TransAlta Energy Corporation *(Notes 7, 9 & 10)*	11,847	–
Prepaid expenses	811	1,008
Inventory *(Note 2)*	851	–
	43,362	31,664
Long-term receivable *(Note 3)*	996	847
Power plants, net *(Notes 2, 4, 5 & 6)*	1,261,966	587,205
	$ 1,306,324	$ 619,716
LIABILITIES AND PARTNERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 19,408	$ 5,793
Distributions payable *(Note 10)*	18,361	4,410
Due to TransAlta Energy Corporation *(Notes 7, 9 & 10)*	–	15,327
Current portion of long-term debt *(Note 6)*	3,651	3,395
	41,420	28,925
Due to TransAlta Energy Corporation *(Notes 2, 9 & 10)*	6,188	6,317
Long-term debt *(Note 6)*	55,022	58,672
Power purchase arrangement, net of accumulated amortization of $1,818 *(Notes 2 & 4)*	74,182	–
Asset retirement liability *(Note 2)*	7,331	3,290
Partners' equity *(Note 8)*		
Partnership units *(Note 4)*	1,263,056	628,056
Deficit	(140,875)	(105,544)
	1,122,181	522,512
	$ 1,306,324	$ 619,716

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
Chairman

Ian A. Bourne
Director

Consolidated Statement of Partners' Equity

(in thousands except number of units outstanding)

	Number of units outstanding	General partner	Limited partners	Total
Balance, Dec. 31, 2001 as previously reported	63,910,341	$ (8)	$ 537,895	$ 537,887
Restatement for change in accounting policy *(Note 2)*		–	(1,770)	(1,770)
Balance, Dec. 31, 2001 - Restated	63,910,341	$ (8)	$ 536,125	$ 536,117
Net income - Restated		4	37,709	37,713
Distributions declared		(5)	(51,313)	(51,318)
Balance, Dec. 31, 2002	63,910,341	$ (9)	$ 522,521	$ 522,512
Partnership units issued *(Note 4)*	78,201,969	–	635,000	635,000
Net income		5	51,559	51,564
Distributions declared		(9)	(86,886)	(86,895)
Balance, Dec. 31, 2003	**142,112,310**	**$ (13)**	**$ 1,122,194**	**$ 1,122,181**

See accompanying notes.

TRANSALTA COGENERATION, L.P.

Consolidated Statements of Earnings and Deficit

Years ended Dec. 31 *(in thousands)*	2003	2002
Revenues		*(Restated, Note 2)*
Electrical	$ 108,566	$ 94,608
Capacity	89,419	49,688
Thermal and other	11,221	10,175
	209,206	154,471
Operating expenses		
Cost of fuel *(Notes 10 & 13)*	83,909	67,971
Depreciation *(Note 15)*	38,256	27,850
Operating and maintenance *(Notes 4 & 10)*	30,602	16,082
	152,767	111,903
Operating income	56,439	42,568
Net interest expense *(Notes 6, 7 & 9)*	4,875	4,855
Net income	$ 51,564	$ 37,713
Deficit, beginning of period	$(105,242)	$ (90,169)
Restatement for change in accounting policy *(Note 2)*	(302)	(1,770)
Deficit, beginning of period restated	(105,544)	(91,939)
Net Income	51,564	37,713
Distributions declared	(86,895)	(51,318)
Deficit, end of period	$(140,875)	$(105,544)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended Dec. 31 *(in thousands)*	2003	2002
Operating activities		*(Restated, Note 2)*
Net income	$ 51,564	$ 37,713
Depreciation *(Note 15)*	39,058	27,850
Non-cash interest expense	372	315
	90,994	65,878
Change in non-cash operating working capital balances	(11,672)	(7,760)
Cash provided by operating activities	79,322	58,118
Investing activities		
Additions to power plants	(7,539)	(8,792)
Disposal of assets	–	1,034
Sheerness acquisition *(Note 4)*	(149,773)	–
Maintenance capital expenditures (net of recoveries)	(40)	1,861
Cash used in investing activities	(157,352)	(5,897)
Financing activities		
Distributions paid to unitholders	(72,944)	(51,143)
Proceeds from issuance of partnership units *(Note 4)*	154,925	–
Levelization advance (repayment) from (to) TransAlta Energy Corporation	(80)	342
Repayment of long-term debt principal	(3,394)	(3,157)
Cash provided by (used in) financing activities	78,507	(53,958)
Increase (decrease) in cash	477	(1,737)
Cash, beginning of year	232	1,969
Cash, end of year	$ 709	$ 232
Cash interest paid	$ 4,426	$ 4,693

See accompanying notes.

For the years ended Dec. 31, 2003 and 2002

(dollar amounts in thousands except as otherwise noted)

1. DESCRIPTION OF BUSINESS

TransAlta Cogeneration, L.P. (TA Cogen) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TA Cogen Partnership Agreement. On April 1, 1998, TA Cogen acquired the Mississauga, Ottawa and Windsor-Essex plant assets of TransAlta Energy Corporation (TEC). On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in the Fort Saskatchewan plant assets from a wholly owned subsidiary of TEC. On July 31, 2003, TA Cogen acquired a 50 per cent interest in the Sheerness plant assets from TEC. TransAlta Corporation (TAC) owns 50.01 per cent of TA Cogen through two wholly owned subsidiaries: TEC and TransAlta Cogeneration Ltd. TransAlta Power, L.P. (TransAlta Power) owns the remaining 49.99 per cent. TEC is retained by TA Cogen to operate and maintain the plants and to provide certain management, administrative and other services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The consolidated financial statements include the accounts of TA Cogen and its proportionate share of the Fort Saskatchewan and Sheerness joint ventures from the date of acquisition.

B. Changes in Accounting Policy

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into on construction of the Windsor-Essex plant and has a life equal to the long-term contract. These levelization amounts were recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the long-term contract. In 2003, the levelization payments reversed and TA Cogen began to repay the levelization payments and interest to TEC. During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. This change in accounting policy has been accounted for retroactively, with restatement of prior periods' financial results. The impact on net income for the year ended Dec. 31, 2002 was a reduction of $0.7 million.

Effective Jan. 1, 2003, TA Cogen early adopted the new Canadian Institute of Chartered Accountants standard for accounting for asset retirement obligations. Under the new standard, TA Cogen recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over the estimated useful life of the asset. Previously, no provision for future site restoration for gas generation plants had been recognized as the costs of restoration were expected to be offset by the salvage value of the related plant.

TA Cogen recorded an asset retirement obligation for all plants, as it is legally required to remove the facilities at the end of their useful lives and restore the plant sites to their original condition. TA Cogen has recognized legal obligations arising from government legislation, written agreements between entities, case law and promises conveyed to third parties that impose reasonable expectations of performance upon TA Cogen under the doctrine of promissory estoppel. The asset retirement liabilities are recognized when the asset retirement obligation is incurred.

The effect of this change in accounting policy was recorded retroactively with restatement of prior periods. The impact on net income for the year ended Dec. 31, 2003 was a reduction of $0.3 million. The impact on net income per unit was not material for the year ended 2003 or 2002. The effect of the adoption is presented below as increases (decreases):

	Increase/(decrease)
Balance sheet:	
As at Dec. 31, 2002	
Power plants	$ 1,531
Accumulated depreciation	$ 313
Asset retirement liability	$ 3,290
Deficit at Jan. 1, 2002	$ (1,770)
Statement of earnings:	
For the year ended Dec. 31, 2002	
Decommissioning expense, included in depreciation expense	$ 60
Accretion expense, included in depreciation expense	$ 242
Net income	$ (302)

A reconciliation between the opening and closing asset retirement liability balances is provided below:

Balance, Jan. 1, 2003	$ 3,290
Sheerness asset retirement liability	3,661
Accretion expense	380
Balance, Dec. 31, 2003	$ 7,331

TA Cogen estimates the undiscounted amount of cash flow required to settle the asset retirement obligation is approximately $39.4 million, which will be incurred between 2019 and 2028. A discount rate of eight per cent was used to calculate the carrying value of the asset retirement obligation.

C. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

D. Inventory

The partnership's inventory balance represents coal which is valued at the lower of cost and market value, defined as net replacement value.

E. Power Plants

The Ontario and Fort Saskatchewan plants are carried at cost and are depreciated on a unit-of-production basis over the lives of the plants, which are 2028 and 2019 respectively. The Sheerness plant is carried at cost and is depreciated on a straight-line basis over the life of the plant, which is 2026. Certain expenditures relating to components incurred during planned maintenance are capitalized and amortized straight-line over the estimated benefit period of such expenditures, ranging from three to six years. A component is a tangible portion of an asset that can be separately identified as an asset and depreciated over its own expected useful life, and is expected to provide a benefit greater than one year.

F. Power Purchase Arrangement (PPA)

In connection with the acquisition of the Sheerness plant in July 2003 (see *Note 4* for further discussion), TA Cogen assumed a fair value liability of $76.0 million relating to the Sheerness PPA. The liability is being amortized straight-line over the life of the plant to 2026.

G. Revenue Recognition

The majority of TA Cogen's revenues are derived from the sale of electricity to Ontario Electricity Financial Corporation (OEFC), Dow Chemical Canada Inc. (Dow Chemical) and the Balancing Pool of Alberta (the Balancing Pool). Revenues under long-term power sales contracts are comprised of capacity payments for plant availability and energy payments for generation of electricity. Capacity revenues are recognized when contractually earned, as specified by contractual terms. Electrical energy revenue is recognized upon delivery. Availability incentives and excess energy revenues are primarily earned at the Sheerness plant when availability exceeds contractual availability targets, and are recognized upon delivery to the customer. Curtailment revenue is recognized when physical curtailment of plant output occurs pursuant to the fixed-for-floating gas swap transaction with TEC (*Note 13B and Note 16*). Thermal revenue for steam sales is recognized upon delivery to the customer.

H. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these consolidated financial statements.

I. Levelization Payments

Pursuant to an agreement dated April 2, 1998, TA Cogen receives levelization payments in respect of the Windsor-Essex plant from TEC. These amounts are recorded as a future repayment obligation to TEC. The levelization agreement was entered into on the construction of the plant and has a life equal to the PPA. TA Cogen made principal repayments of $0.1 million in 2003 (2002 - $0.4 million) (*Note 9*).

J. Financial Instruments

Fixed-price contracts and swaps are used to hedge TA Cogen's exposure to fluctuations in gas commodity and transportation costs. Gains and losses are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet. Contracts for the physical delivery or supply of electricity and gas at fixed pricing terms are not considered to be derivatives and are accounted for on a settlement basis.

The estimated fair value of long-term debt is determined with reference to market prices for similar issues (*Note 13A*). The carrying amounts of other balance sheet financial assets and financial liabilities approximate their fair values.

3. LONG-TERM RECEIVABLE

The long-term receivable is due from Dow Chemical for maintenance capital expenditures. It is non-interest bearing and is due in 2005. During 2003, TA Cogen received $nil from Dow Chemical with respect to maintenance capital expenditures (2002 - $1.9 million).

4. ACQUISITION AND INVESTMENT

On July 31, 2003, TA Cogen acquired, at fair value, TEC's 50 per cent interest in the two-unit, 756-megawatt coal-fired Sheerness plant. Consideration for the acquisition was in the form of partnership units issued to TEC for $315.0 million and to TransAlta Power for $315.0 million. Consideration for the units issued to TransAlta Power was comprised of cash of $149.8 million plus cancellation of a note receivable from TEC of $165.1 million.

Fair value was determined by valuing the estimated future cash flows from TEC's 50 per cent share of the Sheerness plant. Estimated future cash flows were based on detailed forecasts of long-term revenues, expenses, capital, decommissioning and working capital cash flows, much of which was validated by an independent engineering assessment. Valuation methods and metrics were applied that were representative of similar income trust transactions.

The acquisition has been accounted for using the purchase method of accounting. TA Cogen's interest in the Sheerness plant is accounted for as a joint venture and therefore the financial statements reflect only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

Net assets acquired at assigned values	
Power plants	$ 705,261
Working capital	4,248
Asset retirement liability	(3,661)
Power purchase arrangement[1]	(76,000)
	$ 629,848

Consideration	
TA Cogen cash payment to TEC	$ 149,773
Cancellation of note receivable from TEC	165,075
TA Cogen units issued to TEC	315,000
	$ 629,848

1 Represents the obligation to deliver power at less than the prevailing market price for the period of the PPA at the time of acquisition.

TEC and TA Cogen have entered into a services agreement pursuant to which TEC will provide TA Cogen with certain management and administrative services with respect to the Sheerness plant. In connection with the acquisition, TEC will continue to provide such services; however, it will not be entitled to receive any fees for providing such services. TEC will continue to be reimbursed by TA Cogen for any expenses and third party costs incurred in providing such services.

As a result of the purchase of the Sheerness plant, some agreements have been amended or terminated to be in alignment with the growth and business strategies of TA Cogen. The changes are as follows:

- The management services provided by TEC to TA Cogen will continue, however, the agreement has been amended to remove the obligation for TA Cogen to pay management fees. In exchange for the removal of these terms, TA Cogen paid a one-time compensation fee of $5.0 million to TEC, which TA Cogen expensed in operating and maintenance expenses in the third quarter of 2003.
- TAC's buy-back provision, which obligated TAC to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018, at fair market value, has been terminated.
- TA Cogen and TEC amended the terms of the Fort Saskatchewan sales agreement to remove any requirement for TEC to purchase the plant either at its option or under TA Cogen's right to require TEC to repurchase the plant on July 31, 2017. TA Cogen no longer requires TEC to use reasonable commercial efforts to sell the plant on or before Dec. 31, 2018.

5. POWER PLANTS

	2003	2002
Cost	**$ 1,435,896**	$ 725,533
Accumulated depreciation	**(173,930)**	(138,328)
Net book value	**$ 1,261,966**	$ 587,205

6. LONG-TERM DEBT

Long-term debt is comprised of notes payable, which bear interest at a fixed rate of 7.41 per cent and mature on Nov. 30, 2014. Interest expense incurred was $4.4 million (2002 - $4.7 million). First fixed and floating charges, a mortgage on the Windsor-Essex power plant assets, a guarantee by TAC and a letter of credit aggregating approximately $60.0 million issued by TAC, have been provided as security.

Principal payments over each of the next five years and thereafter are as follows:

2004	$ 3,651
2005	3,926
2006	4,223
2007	4,542
2008	4,884
Thereafter	37,447
Total	$ 58,673

7. CREDIT FACILITIES

TA Cogen Facilities

On Sept. 30, 2003, a $10.0 million revolving credit facility was established between TA Cogen and TransAlta Power. TransAlta Power can lend funds to TA Cogen at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TransAlta Power. No amount had yet been drawn on this facility at Dec. 31, 2003. The interest rate on this facility in 2003 was 4.74 per cent. There was no interest expense incurred in 2003.

In addition, TA Cogen increased the maximum amount of borrowing permitted under its existing credit facility with TEC from $20.0 million to $50.0 million. This facility bears interest at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TEC. The effective interest rate on this facility in 2003 was 4.57 per cent (2002 - 3.68 per cent). No amount was drawn at Dec. 31, 2003 (2002-$11.9 million). Interest expense incurred was $0.1 million (2002 - $0.1 million).

TEC Facilities

On Sept. 30, 2003, a $50.0 million credit facility was established between TA Cogen and TEC. TA Cogen can lend funds to TEC at the equivalent term cost of funds plus 1.25 per cent, with mandatory payment on demand from TEC. The balance outstanding as at Dec. 31, 2003 was $16.9 million with interest related income earned of $0.1 million, which was net against interest expense. The effective interest rate on this facility in 2003 was 4.74 per cent.

8. PARTNERS' EQUITY

TA Cogen is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions and is not subject to future calls or assessments.

9. LEVELIZATION REPAYMENT OBLIGATION

As at Dec. 31, 2003, the repayment obligation amounts to $6.7 million (2002 - $6.4 million), which includes interest in the amount of $1.6 million (2002 - $1.2 million) and a current portion of $0.5 million (2002 - $0.1 million). Interest is calculated based on the Royal Bank of Canada prime rate plus one per cent. The effective interest rate in 2003 was 5.69 per cent (2002 - 5.21 per cent).

Estimated repayments, including imputed interest of $1.4 million, in each of the next five years and thereafter are as follows:

2004	$ 526
2005	972
2006	1,801
2007	2,672
2008	2,096
Thereafter	–
Total	$ 8,067

10. RELATED PARTY TRANSACTIONS

During the year, TA Cogen engaged in the following related party transactions, which were recorded at their exchange amounts and settled under standard commercial terms.

Acquisition of Sheerness Plant

On July 31, 2003, in connection with TA Cogen's acquisition of TEC's 50 per cent interest in the Sheerness plant, TA Cogen engaged in related party transactions with TEC and TransAlta Power, as discussed in *Note 4*.

Credit Facilities

In 2003, an additional credit facility was established between TA Cogen and TEC. A credit facility was also established between TA Cogen and TransAlta Power (see *Note 7* for further discussion).

Fixed-for-floating Gas Swap and Transportation Swap

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period in order to fix the price of gas for both the Mississauga and Ottawa plants (*Note 13B and Note 16*). For the period Nov. 1, 2002 to Nov. 1, 2007, TA Cogen entered into a transportation swap transaction with a wholly owned subsidiary of TEC to fix the gas delivery price for the Mississauga and Ottawa plants (see *Note 13B and Note 16* for further discussion).

Ottawa Gas Supply Agreement

In order to secure a long-term natural gas supply for the Ottawa plant, TA Cogen has committed to purchase firm volumes of gas from TEC until Nov. 1, 2007 under a gas supply agreement. In 2003, $11.5 million was charged to cost of fuel expense (2002 - $11.2 million) with respect to purchases under this agreement.

Levelization Repayment Obligation

TA Cogen receives levelization payments in respect of the Windsor-Essex plant from TEC. These amounts are recorded as a future repayment obligation to TEC (see *Note 2 I* and *Note 9* for further discussion). The current portion of the levelization obligation of $0.5 million offset Due from TransAlta Energy Corporation at Dec. 31, 2003. $6.2 million of the long-term component was included in Due to TransAlta Energy Corporation at Dec. 31, 2003.

Management Services

TEC operates the power plant assets and provides management services to TA Cogen under an operating and maintenance agreement. The agreement was amended in connection with the acquisition of the Sheerness plant in 2003 (see *Note 4* for further discussion). The amounts charged by TEC as reimbursement of expenses and third party costs incurred on behalf of TA Cogen were $8.5 million for the year ended Dec. 31, 2003 (2002 - $6.9 million) and were recorded in operating and maintenance expenses. $4.6 million remains payable at Dec. 31, 2003 (2002 - $3.3 million).

The net amount Due from (to) TransAlta Energy Corporation is comprised of the following:

	2003	2002
Reimbursement of expenses and third party costs	$ (4,526)	$ (3,346)
Current portion of levelization	(526)	(81)
Credit facility	16,899	(11,900)
Due from (to) TransAlta Energy Corporation	$ 11,847	$ (15,327)

Distributions

TA Cogen distributes cash to TransAlta Power and TEC in amounts proportionate to their ownership interests in TA Cogen. At Dec. 31, 2003, distributions payable to TransAlta Power were $9.2 million (2002 - $2.2 million). Distributions payable to TEC were $9.2 million (2002 - $1.9 million).

11. INCOME TAXES

The reported amounts of TA Cogen's assets and liabilities as at Dec. 31, 2003 exceed the tax base by $568.8 million (2002 - $405.2 million).

12. RECLASSIFICATION OF COMPARATIVE FIGURES

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements.

13. FINANCIAL RISK MANAGEMENT

A. Interest Rate Risk Management

TA Cogen has fixed the interest rates on long-term debt through fixed-rate borrowings. The fair value of TA Cogen's long-term debt changes as interest rates change. The fair value of the liability as at Dec. 31, 2003 was $63.4 million (2002 - $62.4 million).

B. Energy Commodities Price Risk Management

Sales prices for electrical and thermal revenues, gas purchase prices and gas transportation costs are generally fixed through long-term contracts. Selling prices for electrical and thermal revenues are fixed under the terms of the contracts and include specific price adjustment clauses. As a result, TA Cogen is less subject to fluctuations in market prices of these commodities. These contract terms range from 2008 to 2019. The cost of gas transportation is subject to rate regulation.

From Nov. 1, 2002 to Nov. 1, 2007, TA Cogen entered into a transportation swap transaction with a wholly owned subsidiary of TEC. The business purpose of the transportation swap was to provide TA Cogen with a fixed gas delivery price for two of its plants, without being exposed to escalating costs of pipeline transportation over the period of the swap in order to stabilize cash distributions in TA Cogen. The notional gas volume in the transaction was the total delivered fuel for both facilities. These transactions have been recorded at the exchange amount (*Note 16*).

In November 2000, TA Cogen entered into a fixed-for-floating gas swap transaction with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed-price gas for both the Mississauga and Ottawa plants over the period. The floating prices associated with the Mississauga and Ottawa Cogen plants' long-term fuel supply agreements were transferred to TEC's account. For the year ended Dec. 31, 2003, payments by TEC under the swap transaction totaled $10.0 million (2002 - $13.2 million) and were net against cost of fuel expense. The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration, TEC was granted the right to incremental revenues associated with curtailed electrical production during off-peak hours and subsequent higher revenue gas sales. TA Cogen was not entitled to these revenues. The amounts earned by TEC in 2003 and 2002 were not material. In the case of curtailment during on-peak hours, TA Cogen will earn the incremental revenues from the curtailment. Curtailment occurs when gas is sold on the spot market in lieu of generating electricity, and occurs during off-peak periods when it is more economical to sell gas than produce electricity (*Note 16*).

C. Credit Risk

Accounts receivable includes $13.8 million due from OEFC (2002 - $26.1 million), $10.6 million due from the Balancing Pool (2002 - $nil) and $1.5 million due from Dow Chemical (2002 - $1.4 million). These receivables represent 47 per cent (2002 - 86 per cent), 36 per cent (2002 - nil per cent) and five per cent (2002 - five per cent), respectively, of total accounts receivable. Revenue from OEFC represents 47 per cent of total revenue (2002 - 88 per cent). Revenue from the Balancing Pool represents 36 per cent of total revenue (2002 - nil per cent). Revenue from Dow Chemical represents five per cent of total revenue (2002 - six per cent).

14. JOINT VENTURES

Summarized information on the results of operations, financial position and cash flows relating to TA Cogen's pro-rata interests in the jointly controlled Fort Saskatchewan and Sheerness plants were as follows:

Results of Operations

	2003	2002
Revenues	$ 64,631	$ 9,935
Operating expenses	(28,036)	(896)
Proportionate share of net income	$ 36,595	$ 9,039
Financial Position		
Current assets	$ 27,752	$ 2,004
Long-term assets	754,763	59,858
Current liabilities	(9,780)	(158)
Long-term liabilities	(77,960)	–
Proportionate share of net assets	$ 694,775	$ 61,704
Cash Flows		
Operating activities	$ 32,292	$ 9,363
Investing activities	(3,542)	742
Financing activities	(9,527)	(9,866)
Increase (decrease) in cash	$ (19,223)	$ 239

15. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended Dec. 31	2003	2002
Depreciation per statements of earnings	$ 38,256	$ 27,850
Mining equipment depreciation, included in fuel expense	802	–
Depreciation per statements of cash flows	$ 39,058	$ 27,850

16. COMMITMENTS

Sheerness Mine Take or Pay Coal Committment

As at Dec. 31, 2003, the future payment obligation, related to the Sheerness mine take or pay coal commitment, amounts to $315.2 million (2002 - $nil).

Estimated payments in each of the next five years and thereafter are as follows:

2004	$ 13,704
2005	13,704
2006	13,704
2007	13,704
2008	13,704
Thereafter	246,676
Total	$ 315,196

Fixed-For-Floating Swap Agreement

The future commitment under the fixed-for-floating swap agreement at Dec. 31, 2003 is $85.9 million (2002 - $124.6 million).

Estimated payments in each of the remaining years of the agreement are as follows:

2004	$ 41,780
2005	44,116
Thereafter	–
Total	$ 85,896

Transportation Swap Agreement

The future commitment under the fixed-for-floating swap agreement at Dec. 31, 2003 is $57.2 million (2002 - $72.2 million).

Estimated payments in each of the remaining years of the agreement are as follows:

2004	$ 14,944
2005	14,903
2006	14,944
2007	12,447
Thereafter	–
Total	$ 57,238

Unitholder Information

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www.transalta.com

IMPORTANT DISTRIBUTION DATES

PAYMENT DATE	RECORD DATE	EX-DIVIDEND DATE
March 31, 2004	March 10, 2004	March 8, 2004
April 30, 2004	April 10, 2004	April 7, 2004
May 31, 2004	May 10, 2004	May 6, 2004

Cash distributions are paid at the end of each month to unitholders of record at the close of business on the 10th day of that particular month. When a distribution payment date falls on a weekend or holiday, the payment is made the previous business day. Only cash distributions that have been approved by the Board of Directors are included in this table. Information with respect to distributions approved by the Board of Directors for payment after May 31, 2004 will be provided by press release and will be available on our Web site.

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE (DRIP)
TransAlta Power's DRIP offers several options for unitholders wishing to reinvest their distributions without incurring service charges or brokerage fees.

Option 1: Regular Distribution
A unitholder decides not to participate in the Plan and continues to receive regular distributions as declared.

Option 2: Distribution Reinvestment
A unitholder elects to reinvest distributions to purchase additional units at a five per cent discount to the average market price.

Option 3: Premium Distribution
A unitholder elects to have distributions invested in new units and exchanged for a premium distribution equal to 102 per cent of the cash distribution.

Option 4: Cash Purchase of Additional Units
A unitholder may also purchase additional units for cash once enrolled in the Plan at a five per cent discount to the average market price.

For further information, please visit our Web site.

TRANSALTA POWER LTD., GENERAL PARTNER OF TRANSALTA POWER, L.P.:

DIRECTORS

Ian A. Bourne

Terence Dalgleish

Randall J.Findlay

Stephen W. C. Mulherin

Thomas M. Rainwater

T. Iain Ronald (Chair)

Robert M. Soeldner

OFFICERS

Ian A. Bourne
President

Marvin J. Waiand
Vice-President, Finance

Alison T. Love
Secretary

2003 Changes
In 2003, James W. Kemp resigned as a director and Robert M. Soeldner and Thomas M. Rainwater were elected directors.

2004 Changes
In February 2004, Jan Carr resigned as a director and Stephen W.C. Mulherin was elected a director.

Project Management - Joan Moss
Printing - Sundog Printing

In an effort to be environmentally responsible, please notify your financial institution to avoid duplicate mailings of this annual report.

TransAlta™*

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